

AUSTRALIAN ECONOMIC OUTLOOK AGAINST THE GLOBAL BACKDROP

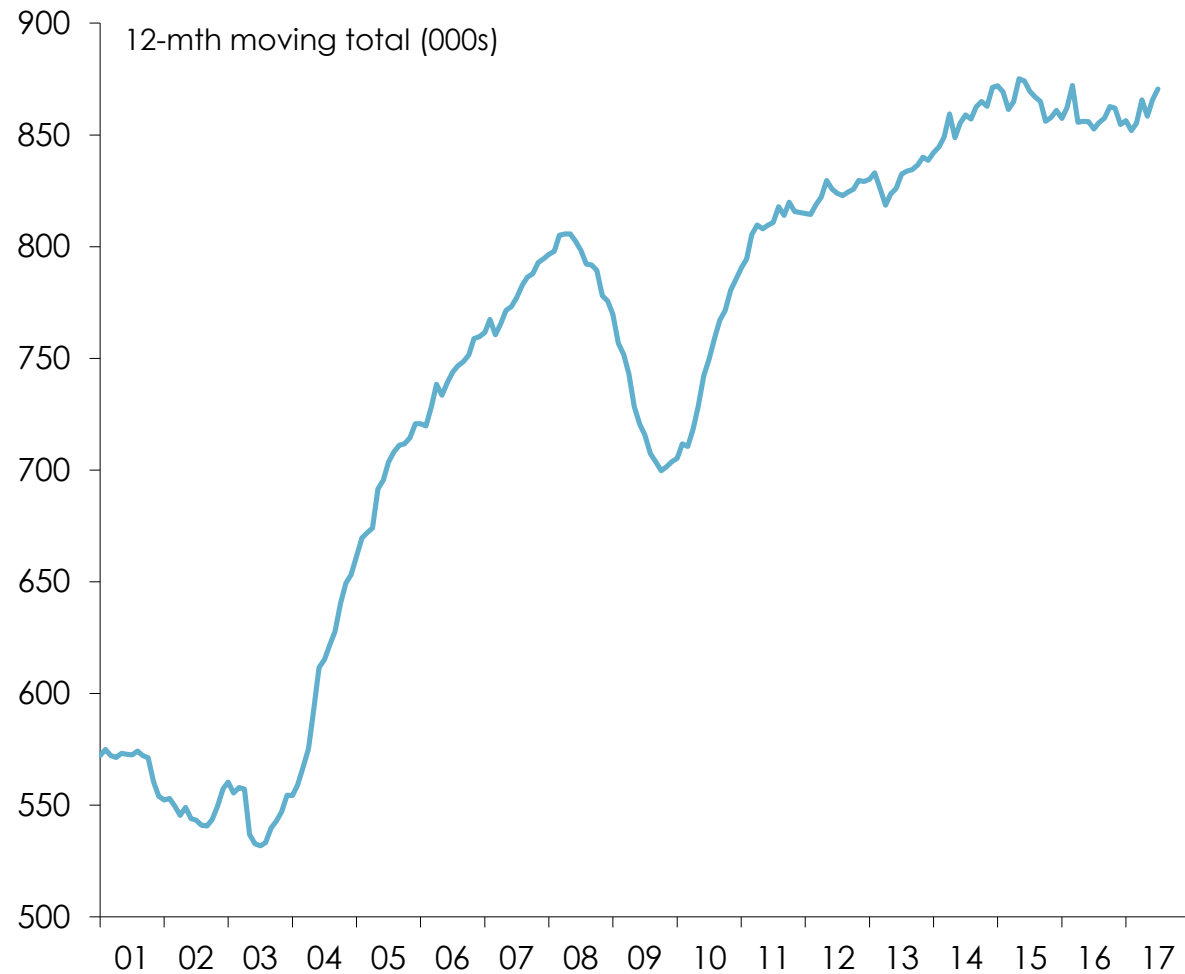
PRESENTATION TO ACTE-CAPA GLOBAL CONFERENCE 2017

SOFITEL WENTWORTH HOTEL, SYDNEY – 29TH NOVEMBER 2017

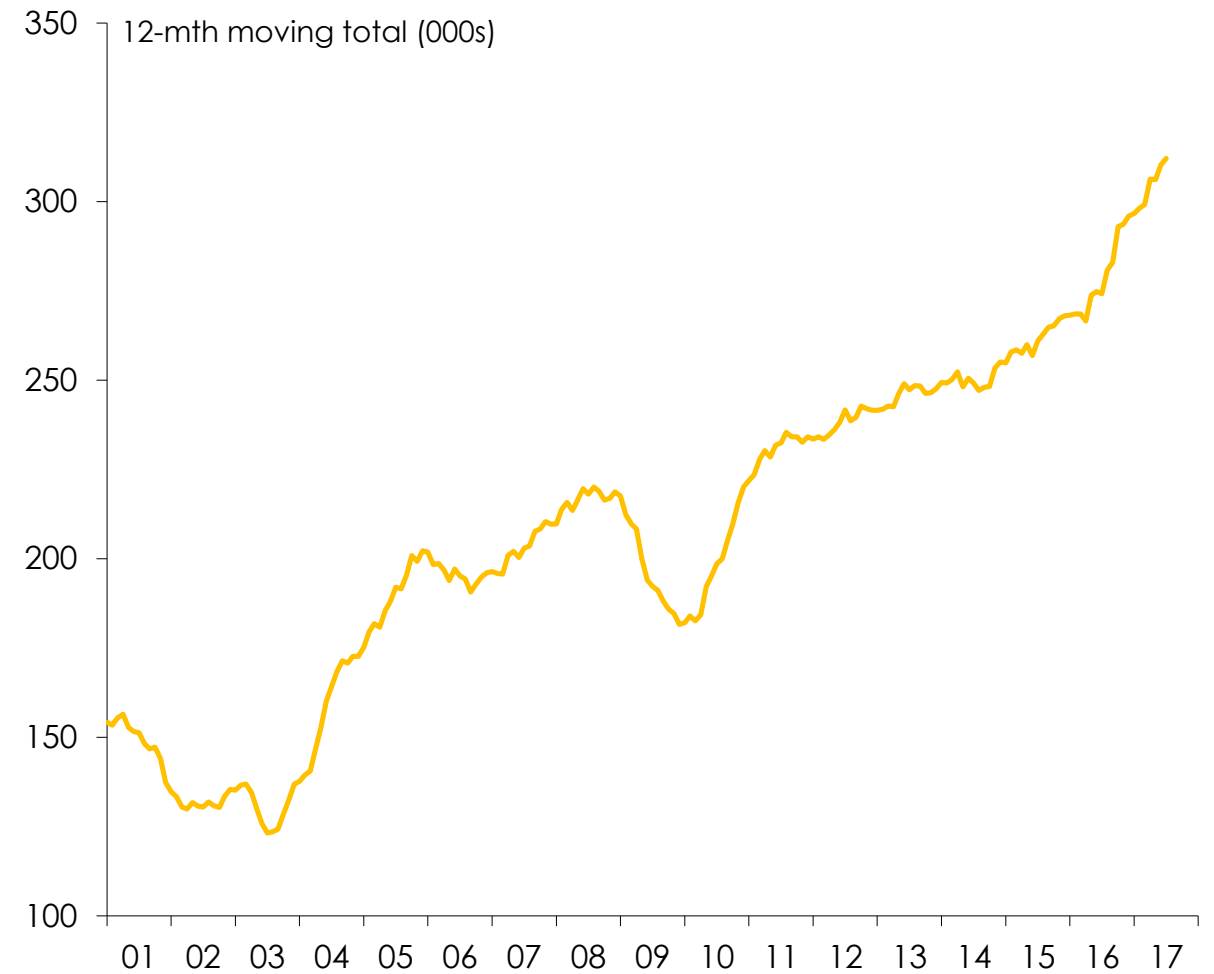
Economic influences on business travel

Outbound international business travel has flatlined over the past three years – but conference and convention travel has accelerated

Outbound international business departures



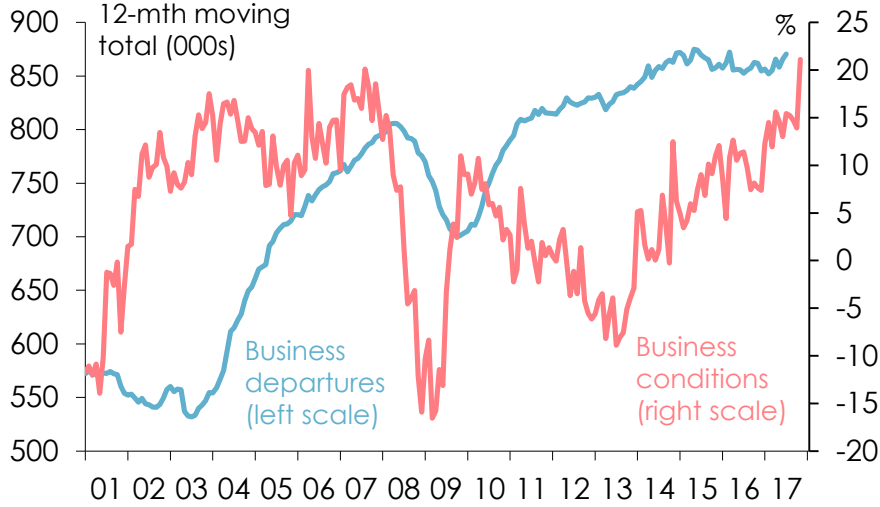
Outbound international conference and convention departures



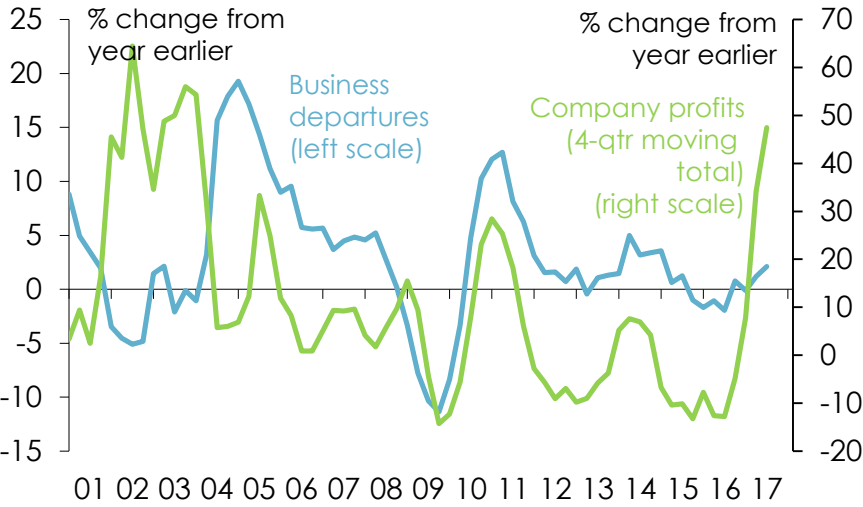
Source: ABS.

A number of different economic factors influence the level of, or changes in, the amount of overseas business travel

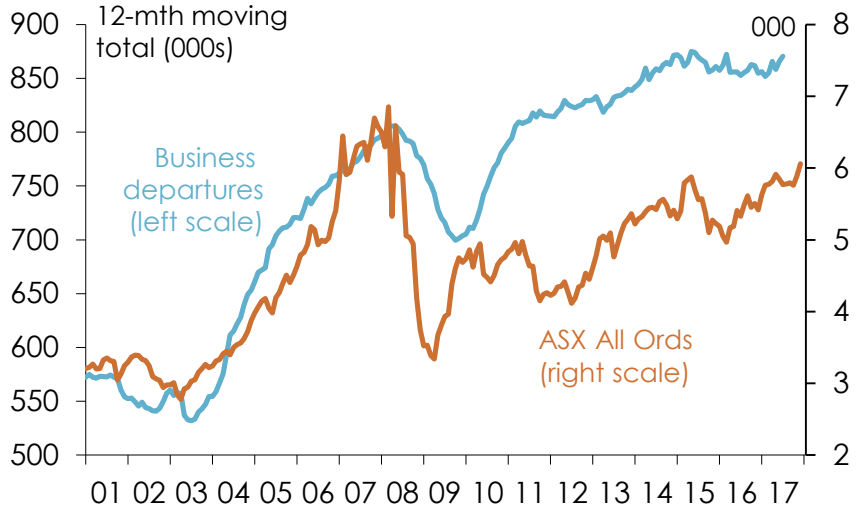
'Business conditions'



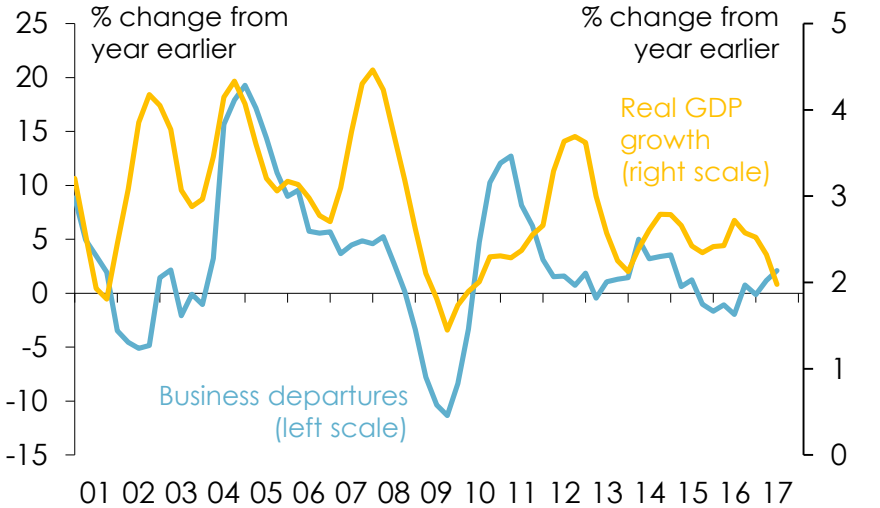
Company profits (pre-tax)



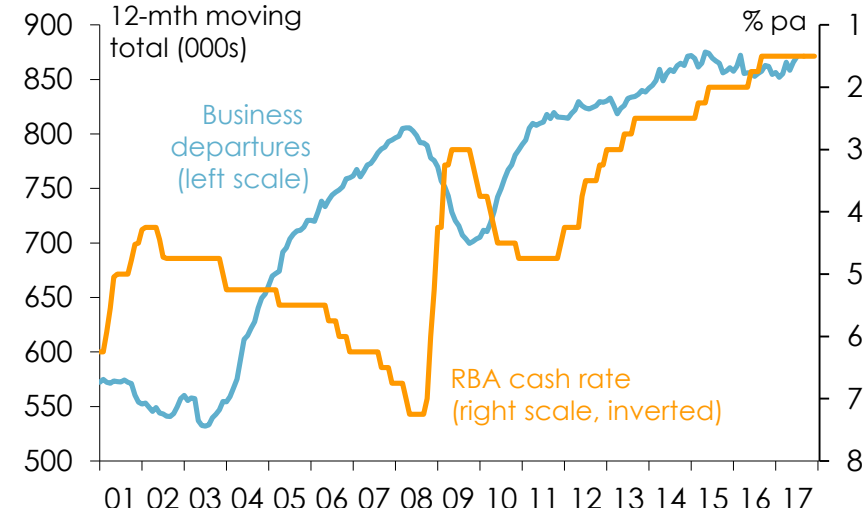
Share prices



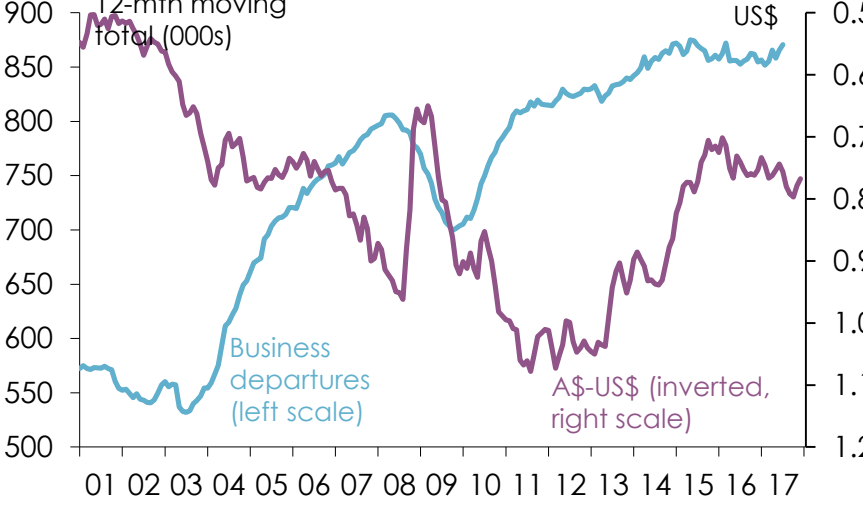
GDP growth



Interest rates



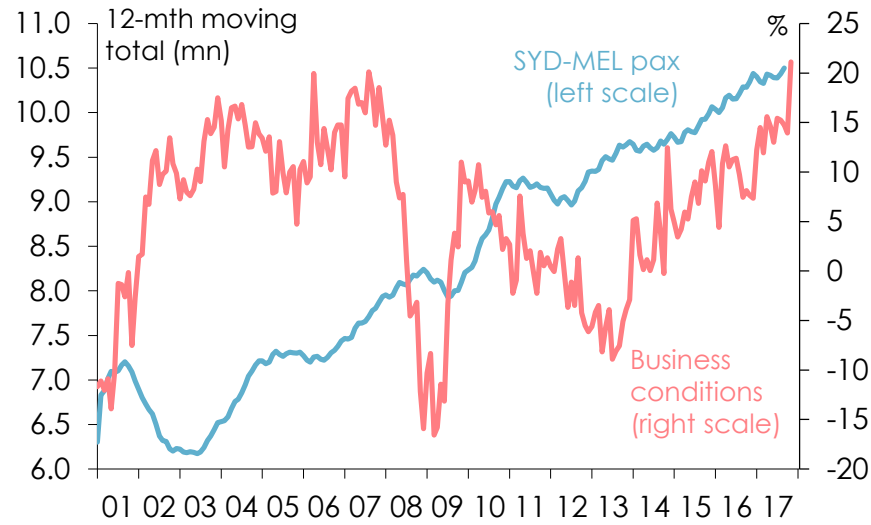
Australian dollar



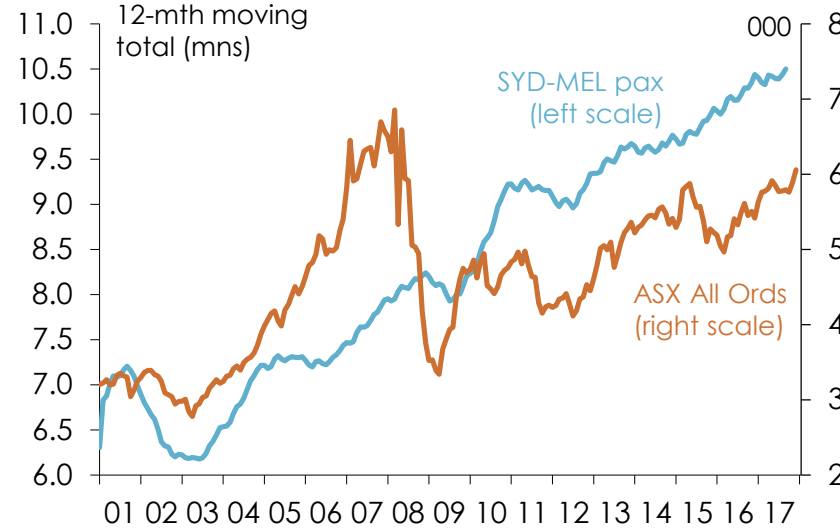
Sources: ABS; National Australia Bank; RBA; Thomson Reuters Datastream

Economic factors also have a significant influence on the amount of domestic business travel

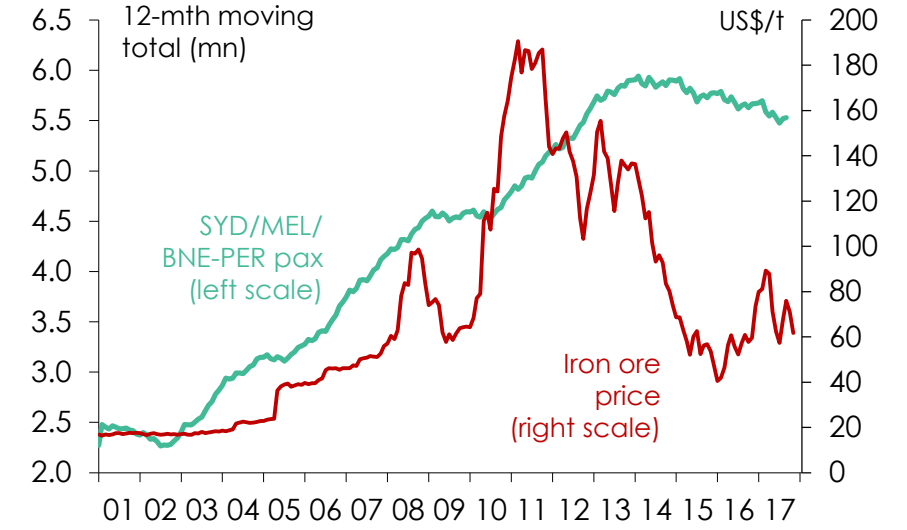
'Business conditions'



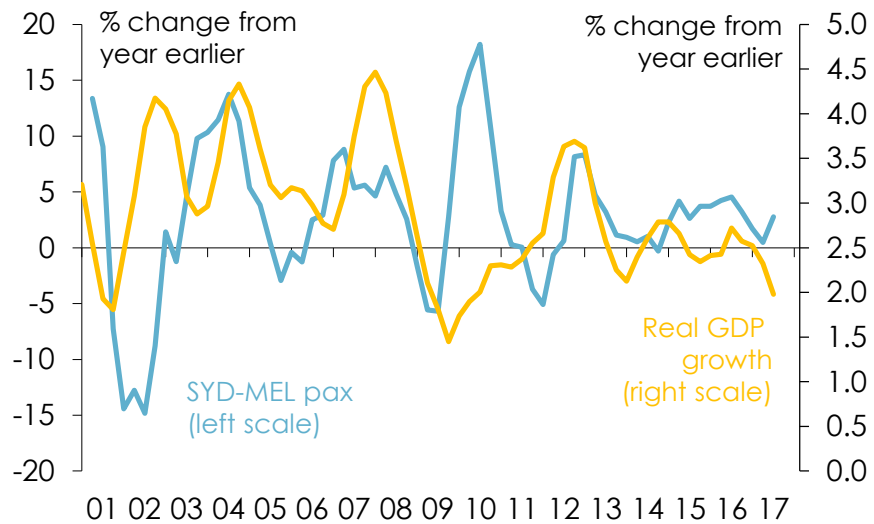
Share prices



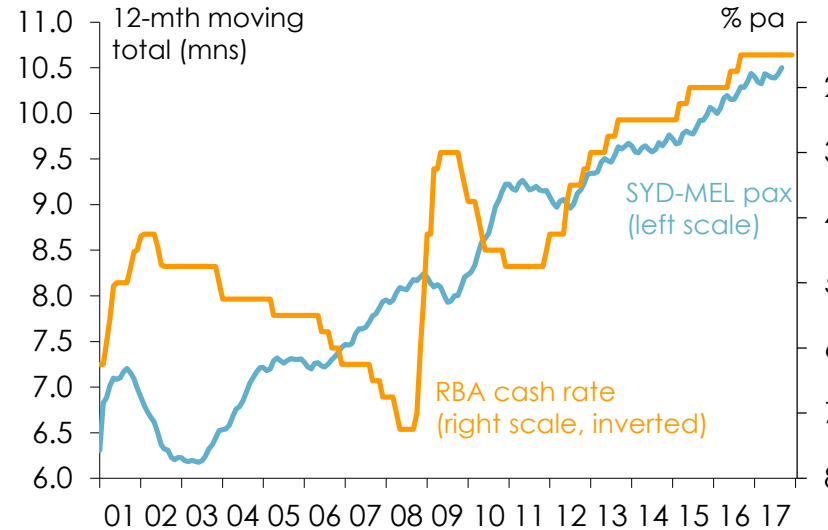
Iron ore prices



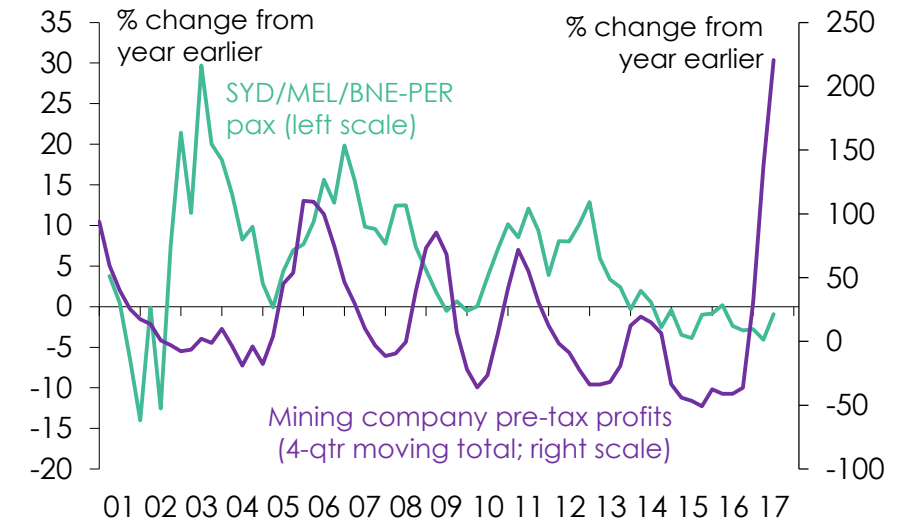
GDP growth



Interest rates



Mining company profits

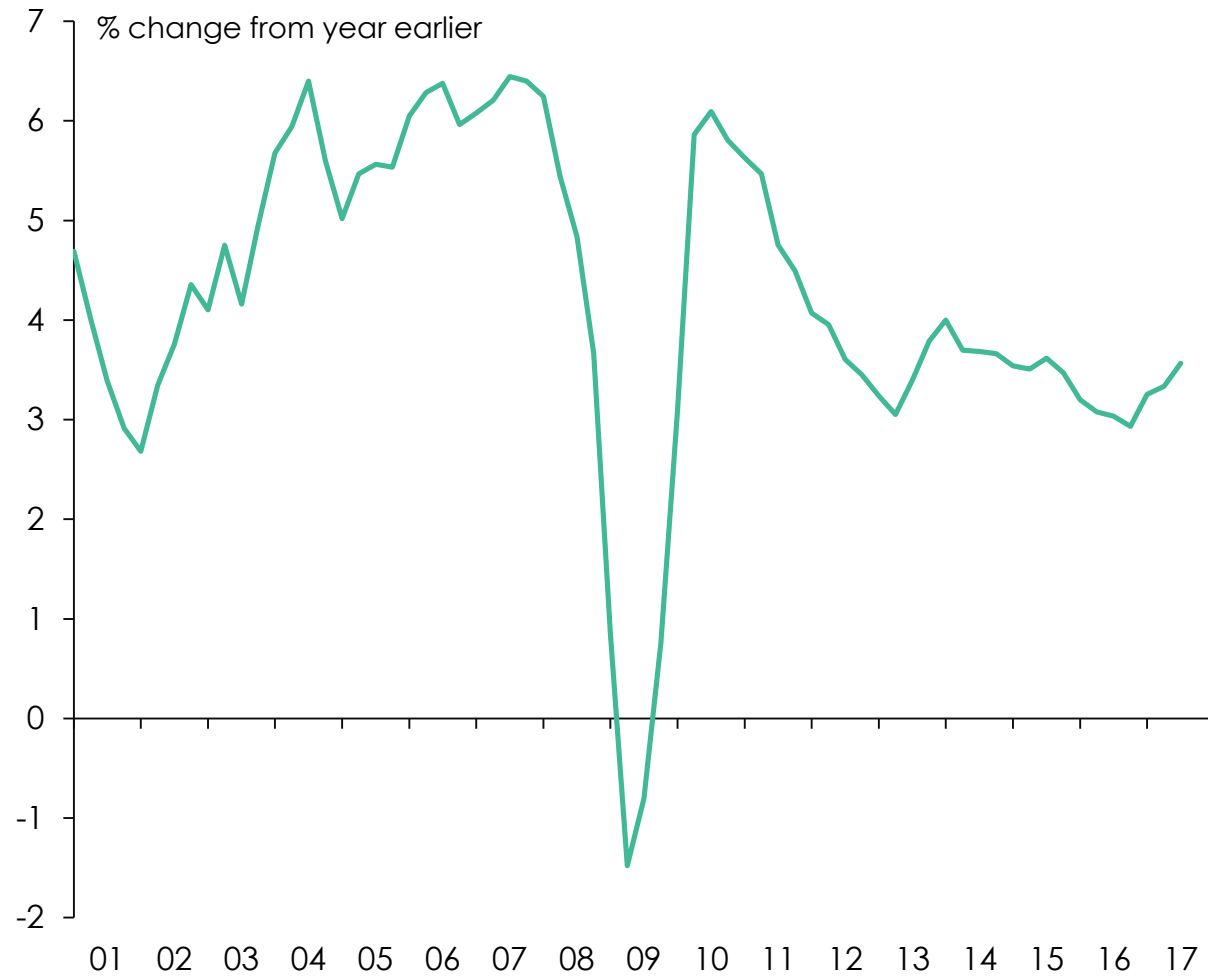


Sources: Bureau of Infrastructure, Transport & Regional Economics (BITRE); National Australia Bank; Thomson Reuters Datastream; RBA; ABS.

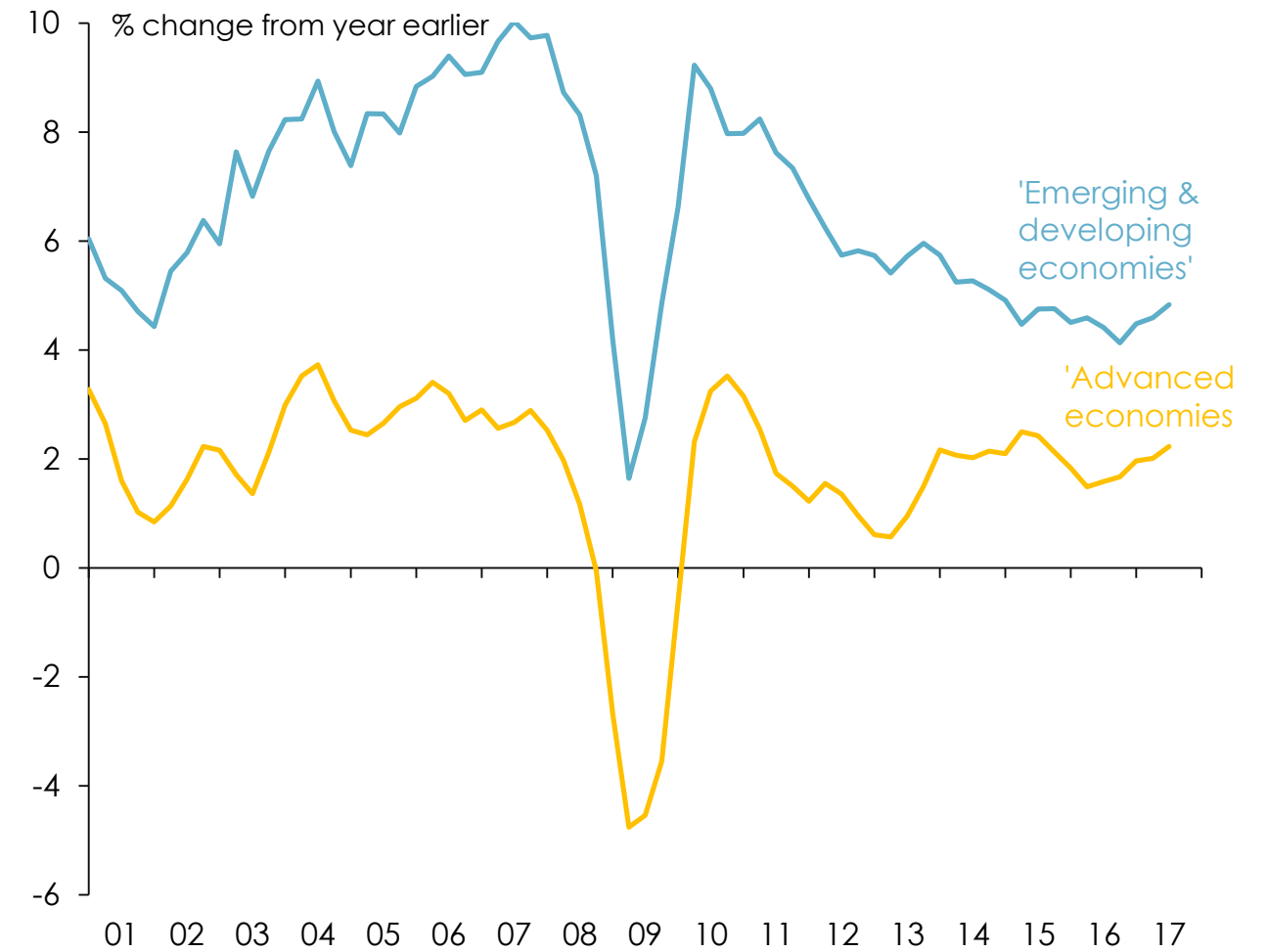
The world economy

World economic growth is picking up

World real GDP growth



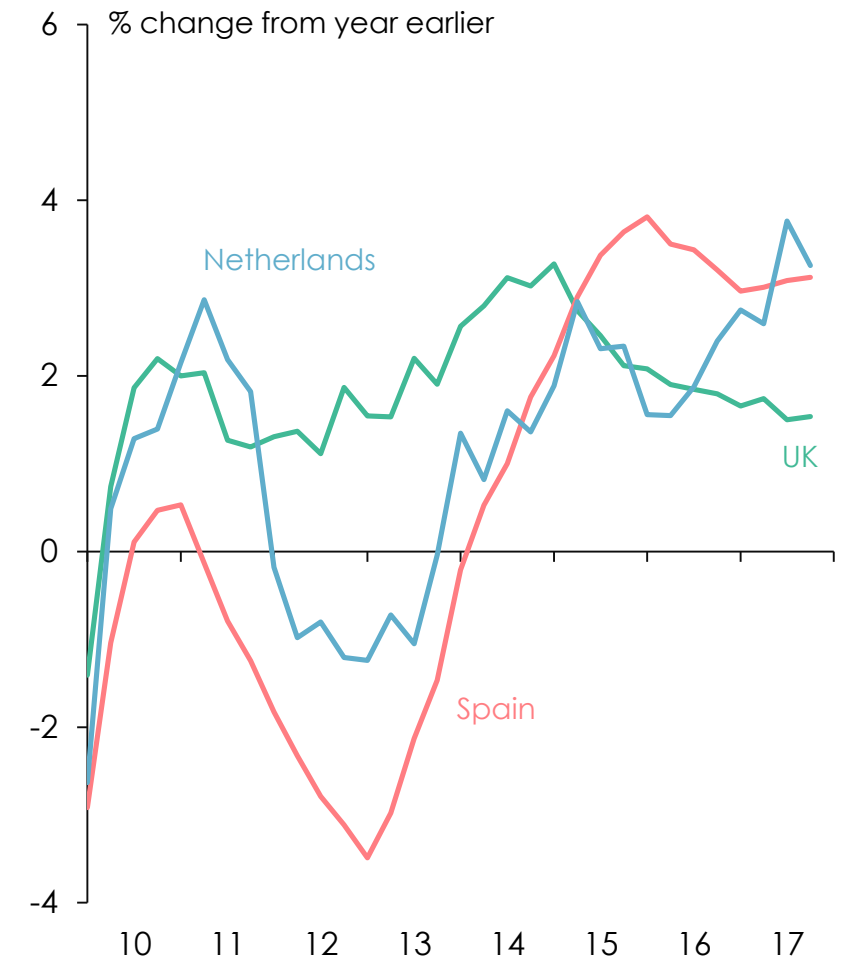
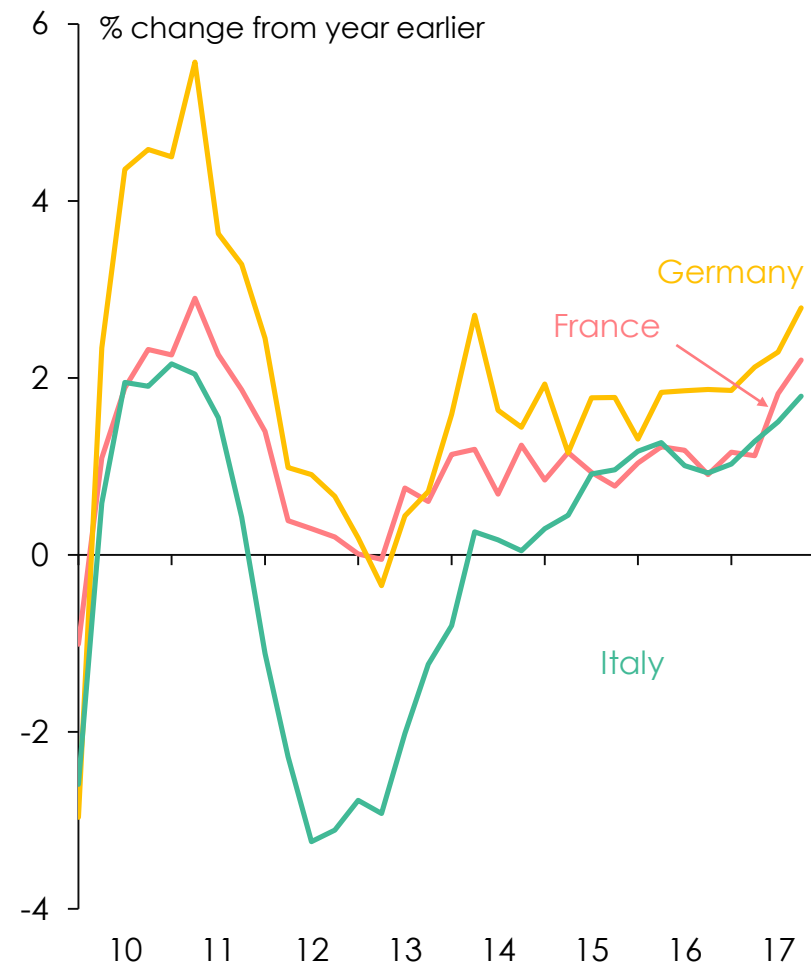
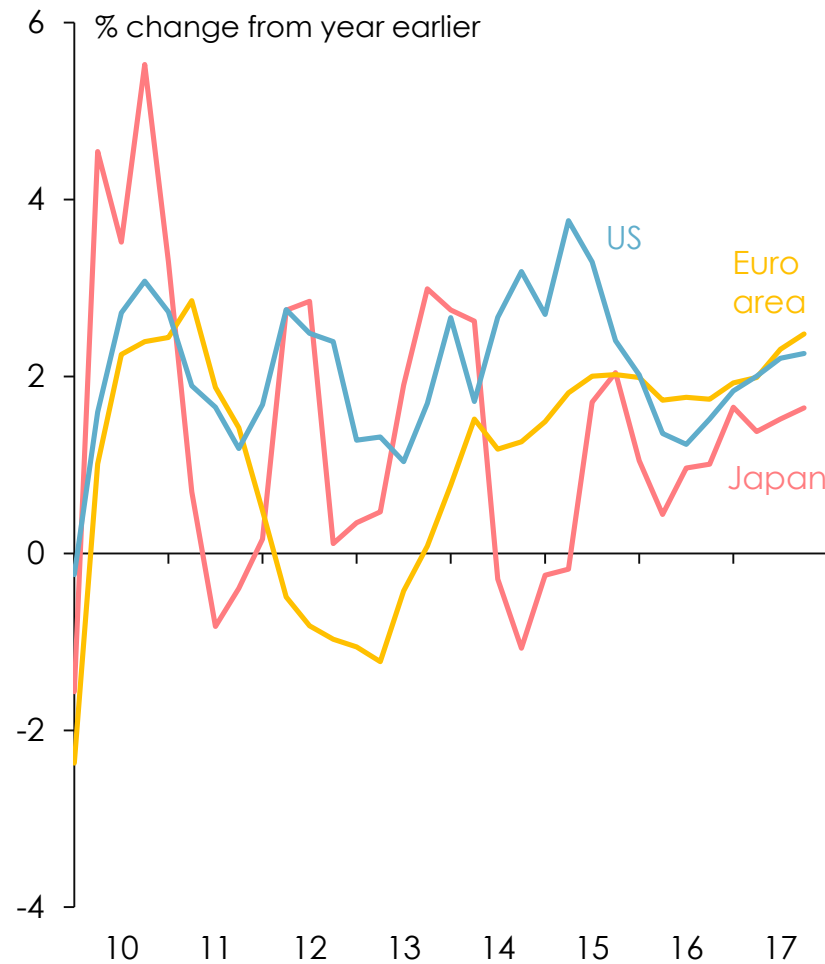
'Advanced' and 'emerging & developing' economies real GDP growth



Note: World GDP growth is the average of growth rates for 68 economies (42 'advanced' and 26 'emerging & developing') accounting for 90% of total world GDP (according to IMF estimates), weighted by their shares of 2016 world GDP at purchasing power parities. Sources: national statistical agencies and central banks; Corinna Economic Advisory.

The upswing in 'advanced' economies is more synchronized than at any time since the crisis – including within the euro area (but not the UK)

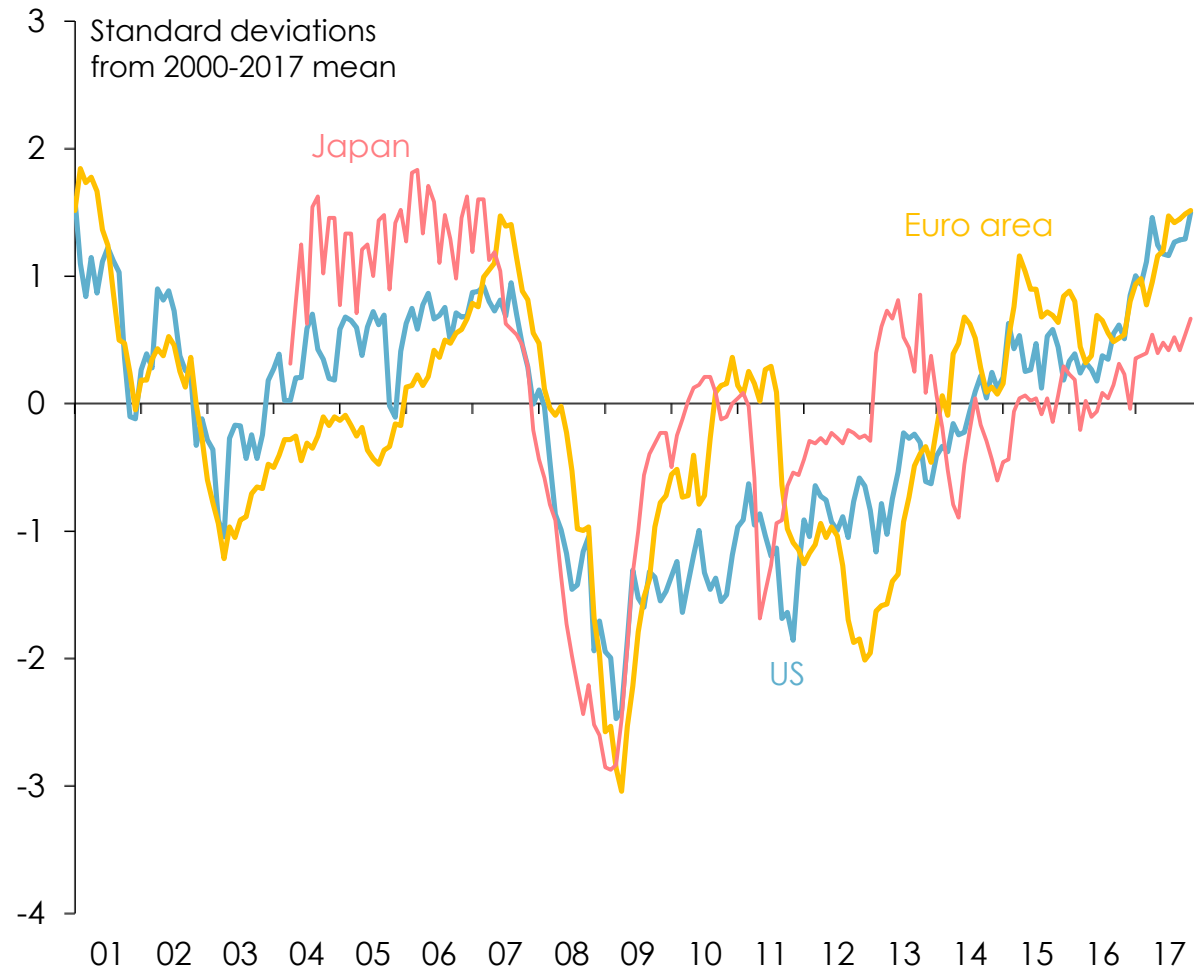
Real GDP growth in 'advanced' economies



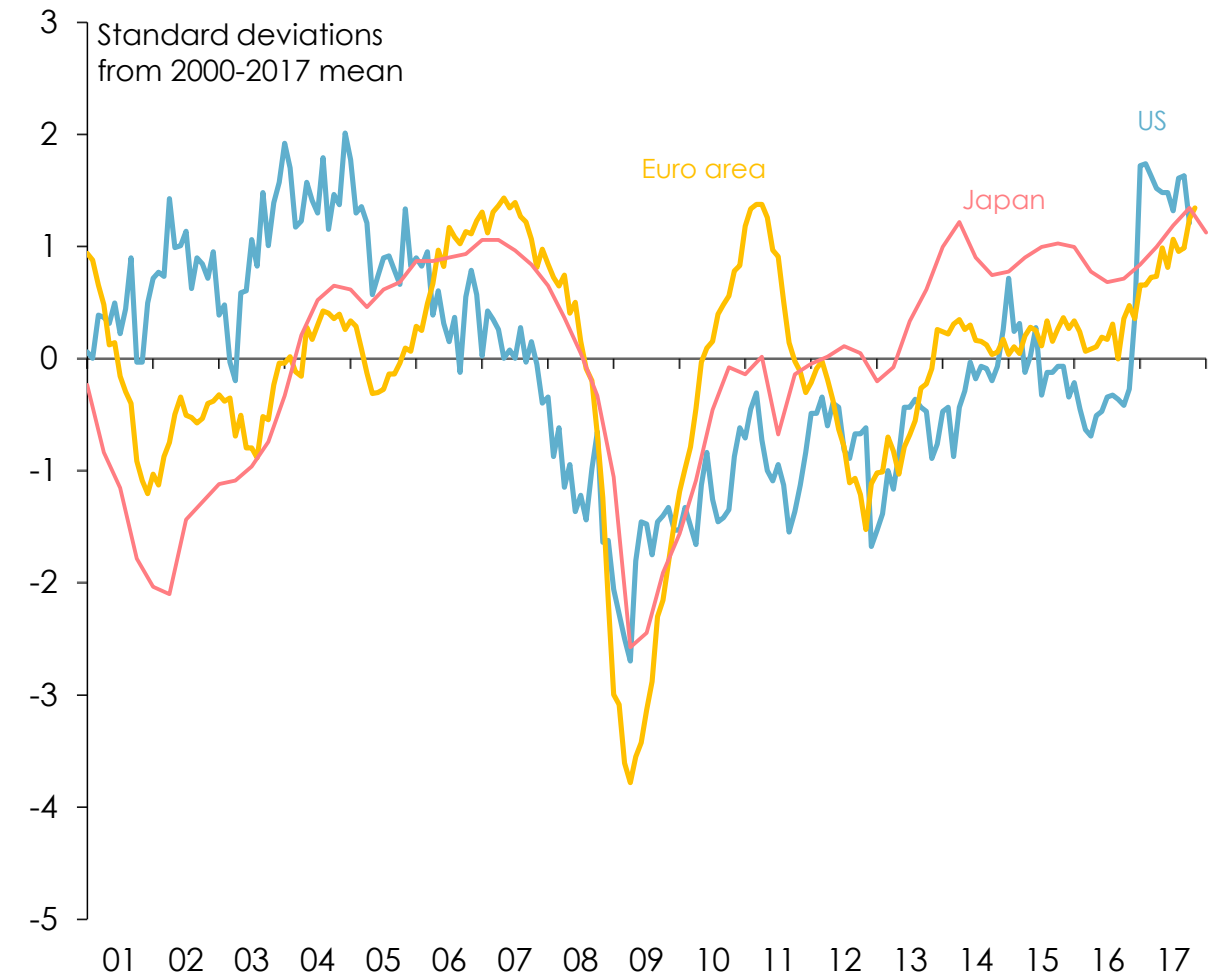
Sources: US Bureau of Economic Analysis; Eurostat; Japan Cabinet Office.

Consumer and business confidence have also improved in the major 'advanced' economies, reflecting political as well as economic events

Consumer confidence



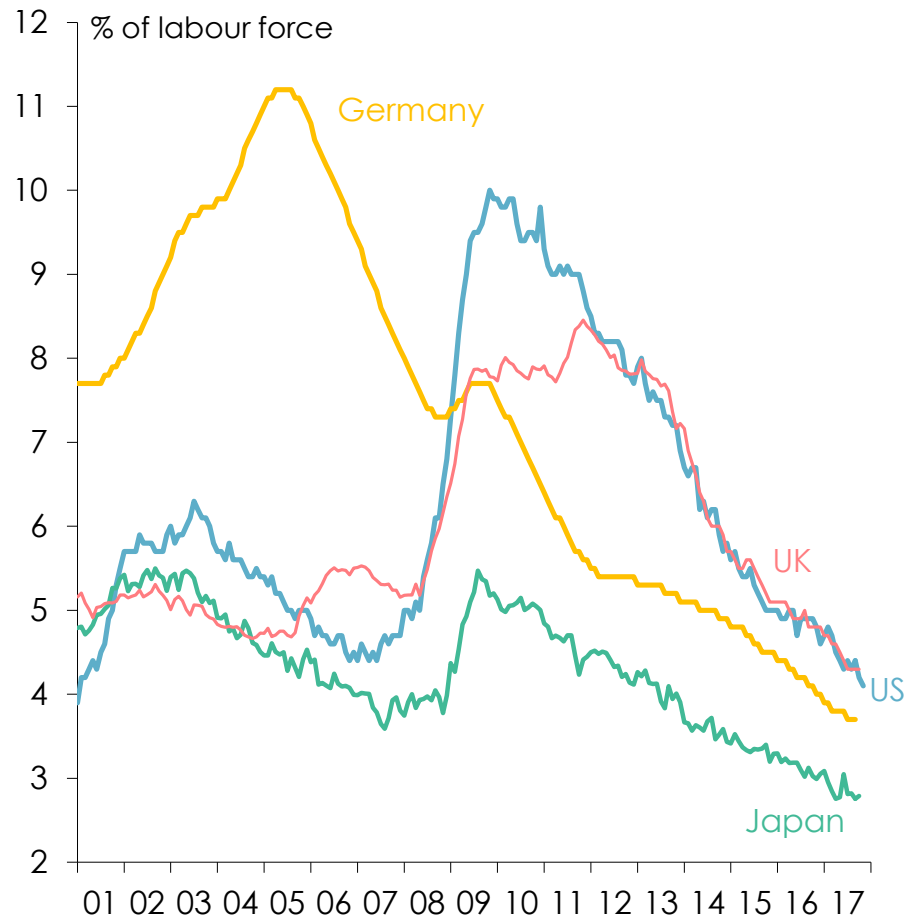
Business confidence



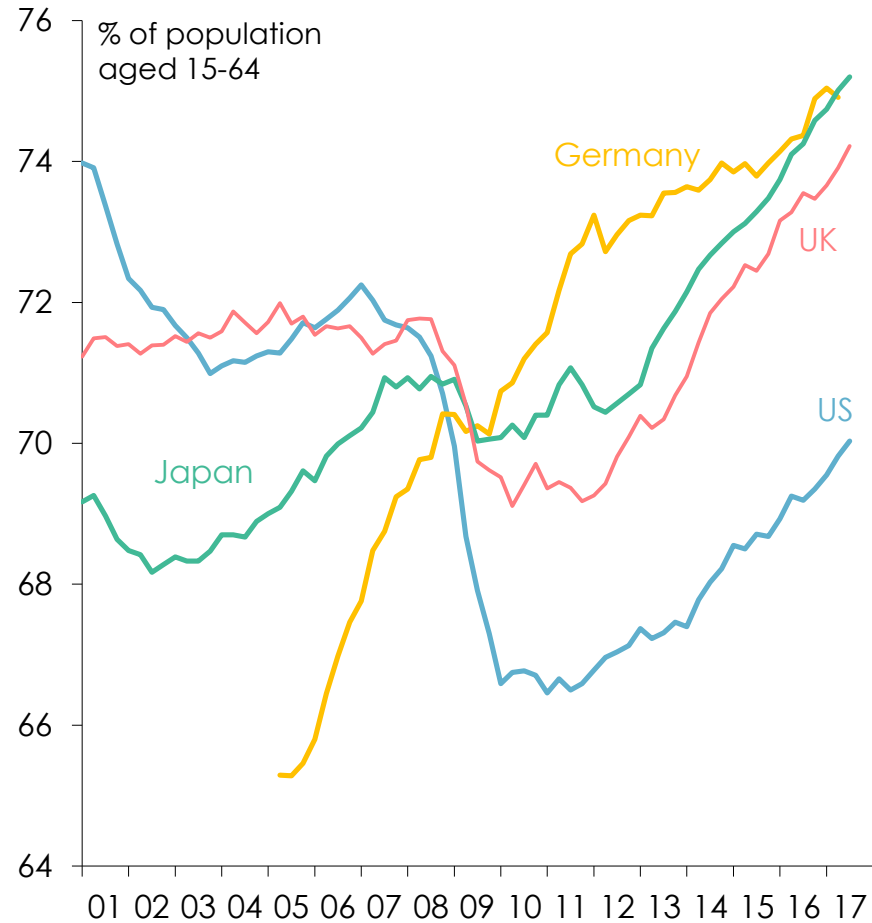
Note: Consumer confidence measures are those compiled by the Conference Board (US), European Commission (euro zone) and Cabinet Office (Japan). Business confidence measures are those compiled by the National Federation of Independent Businesses (US), European Commission (euro zone) and the Bank of Japan (the 'tankan' survey, averaged over large and small businesses).

The largest four 'advanced' economies don't have much 'spare capacity' left in their labour markets

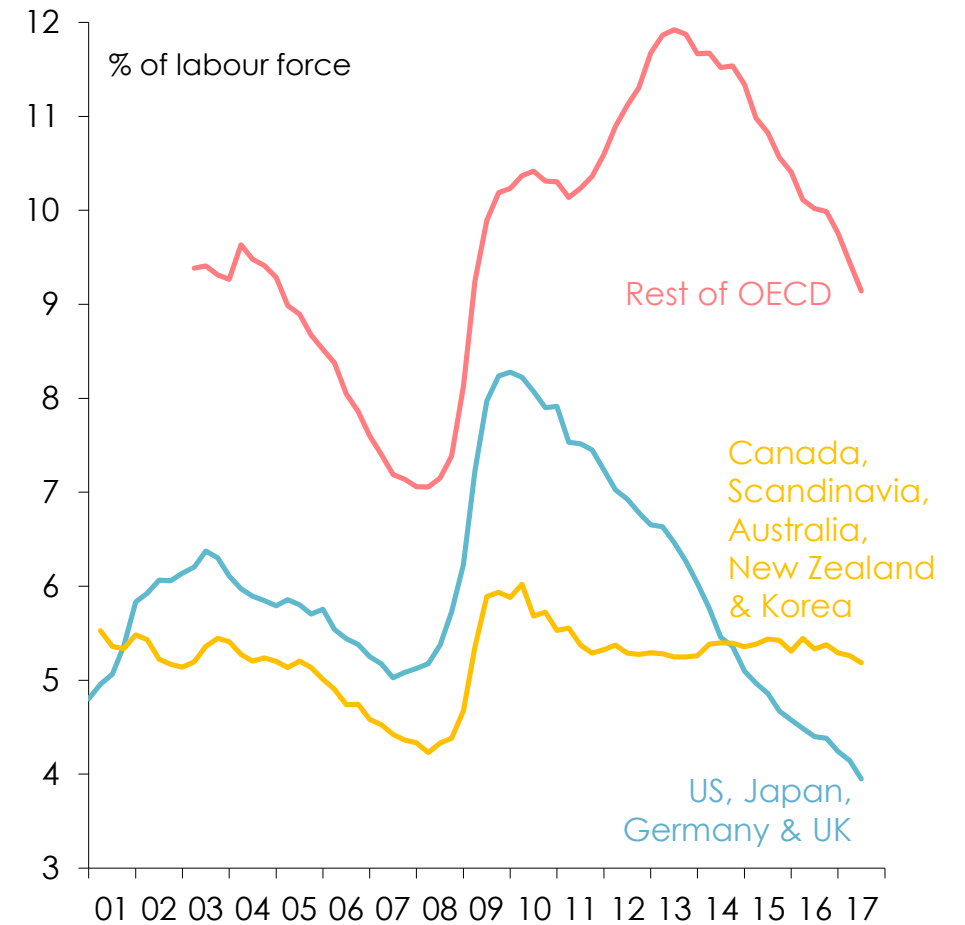
Unemployment – 4 largest 'advanced' economies



'Employment rates' – 4 largest 'advanced' economies



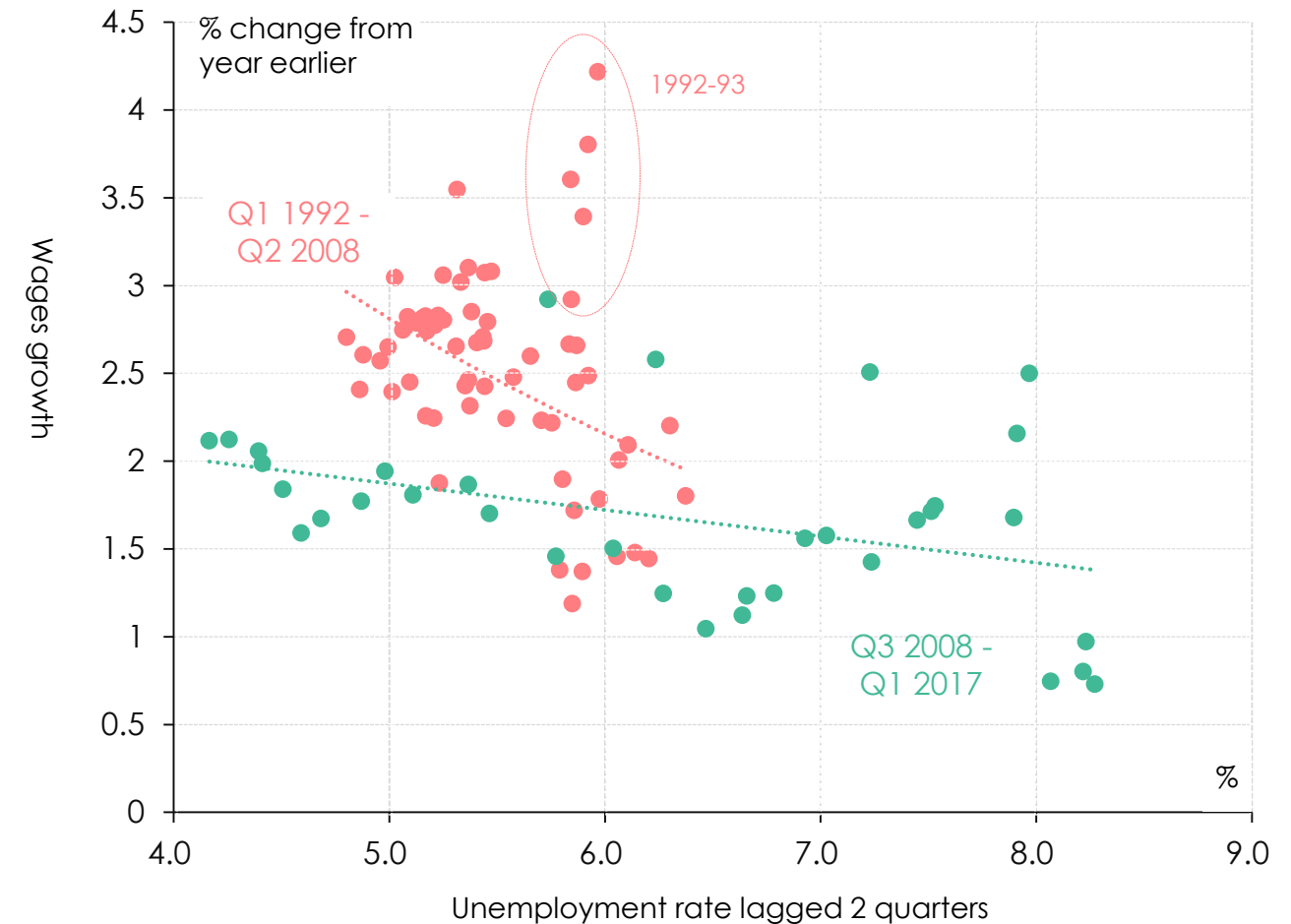
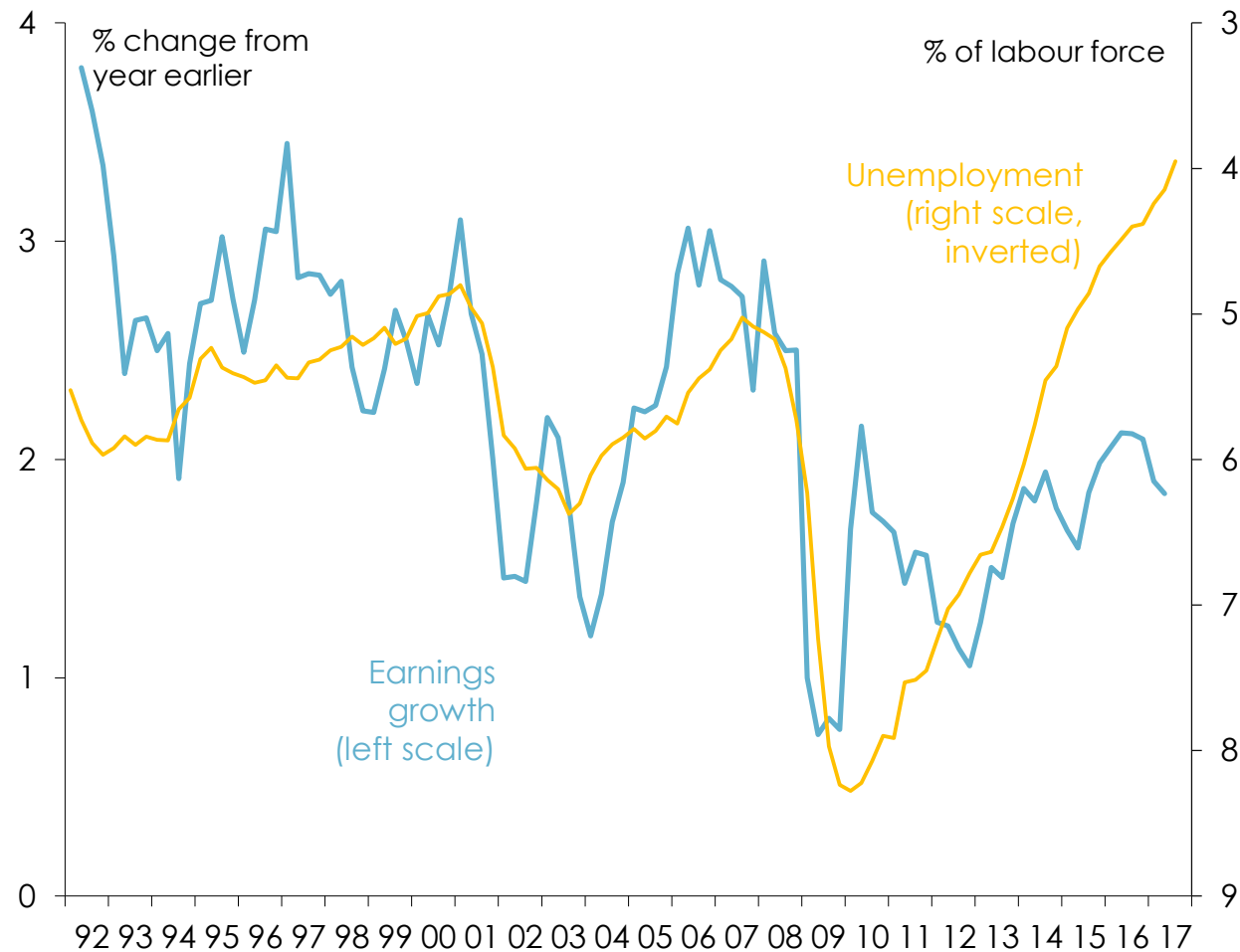
Unemployment rates – other OECD economies



Sources: US Bureau of Labor Statistics; Eurostat; Japan Labour Ministry; Bundesagentur für Arbeit; UK Office of National Statistics; OECD Main Economic Indicators; Corinna Economic Advisory.

Wages are taking longer to respond to labour market tightening than they did before the crisis – but there's no reason to think they won't eventually

Wages growth and unemployment in the four largest 'advanced' economies

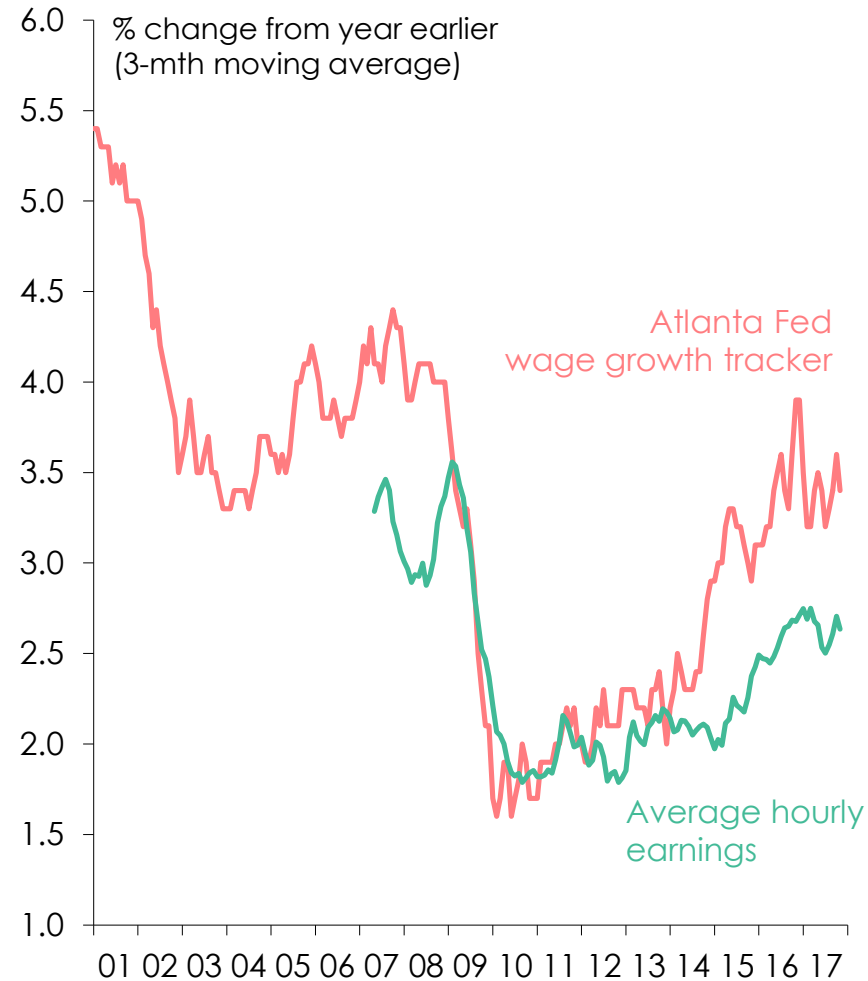
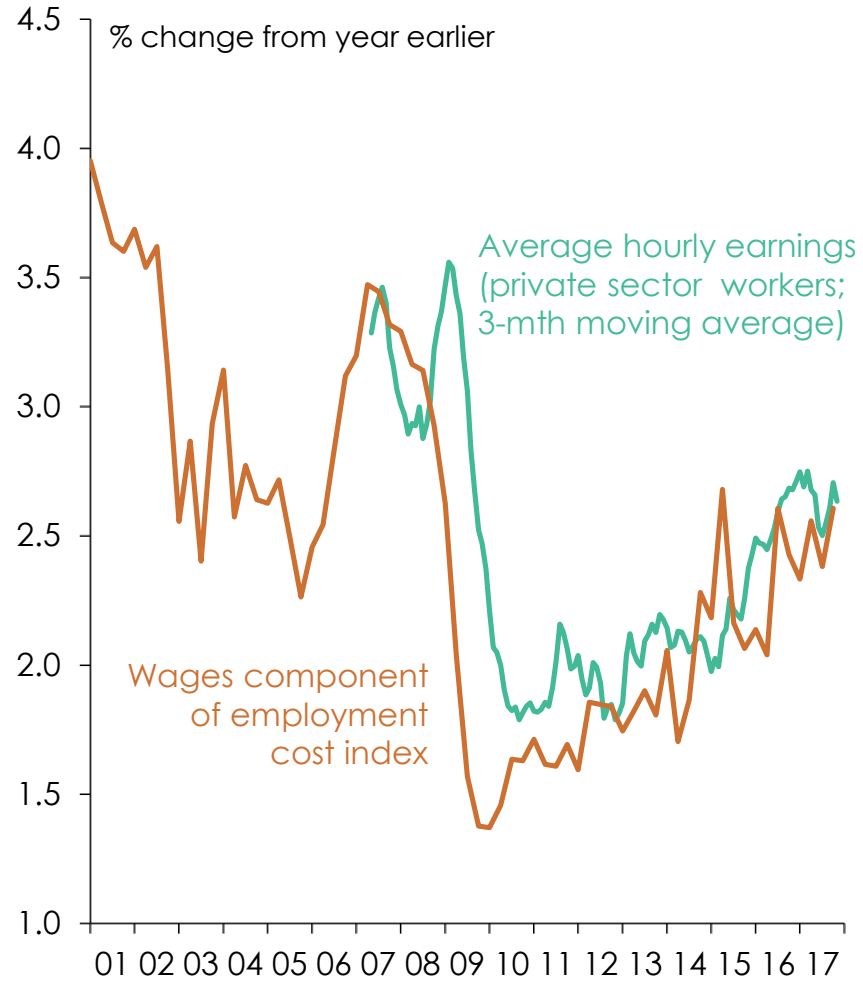


Note: Wages growth and unemployment are averages for the US, Japan, Germany and the UK, weighted by total employment.

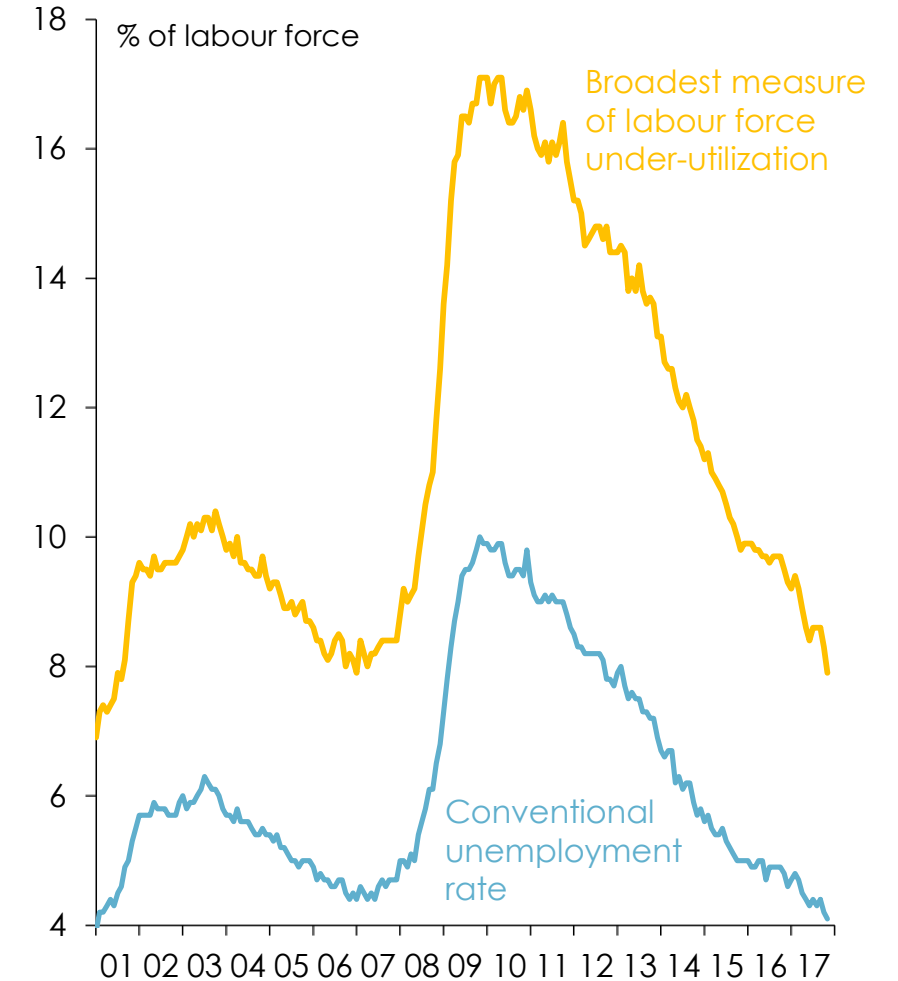
Sources: US Bureau of Labor Statistics; Eurostat; Japan Labour Ministry; Bundesagentur für Arbeit; UK Office of National Statistics; OED; Corinna Economic Advisory.

In the US there is now evidence that wages growth is picking up – but unemployment has had to fall further than previously for that to start

Alternative measures of labour earnings growth



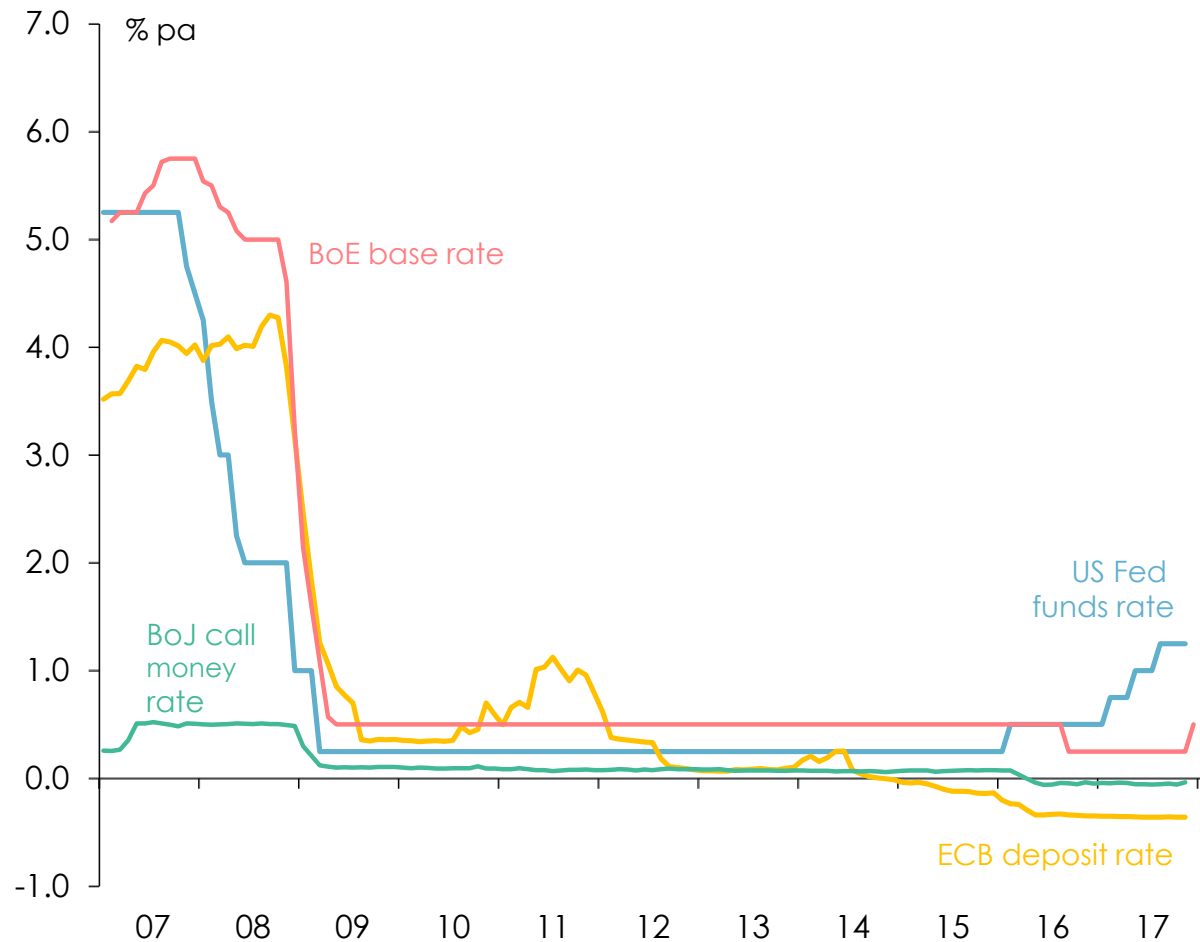
US unemployment



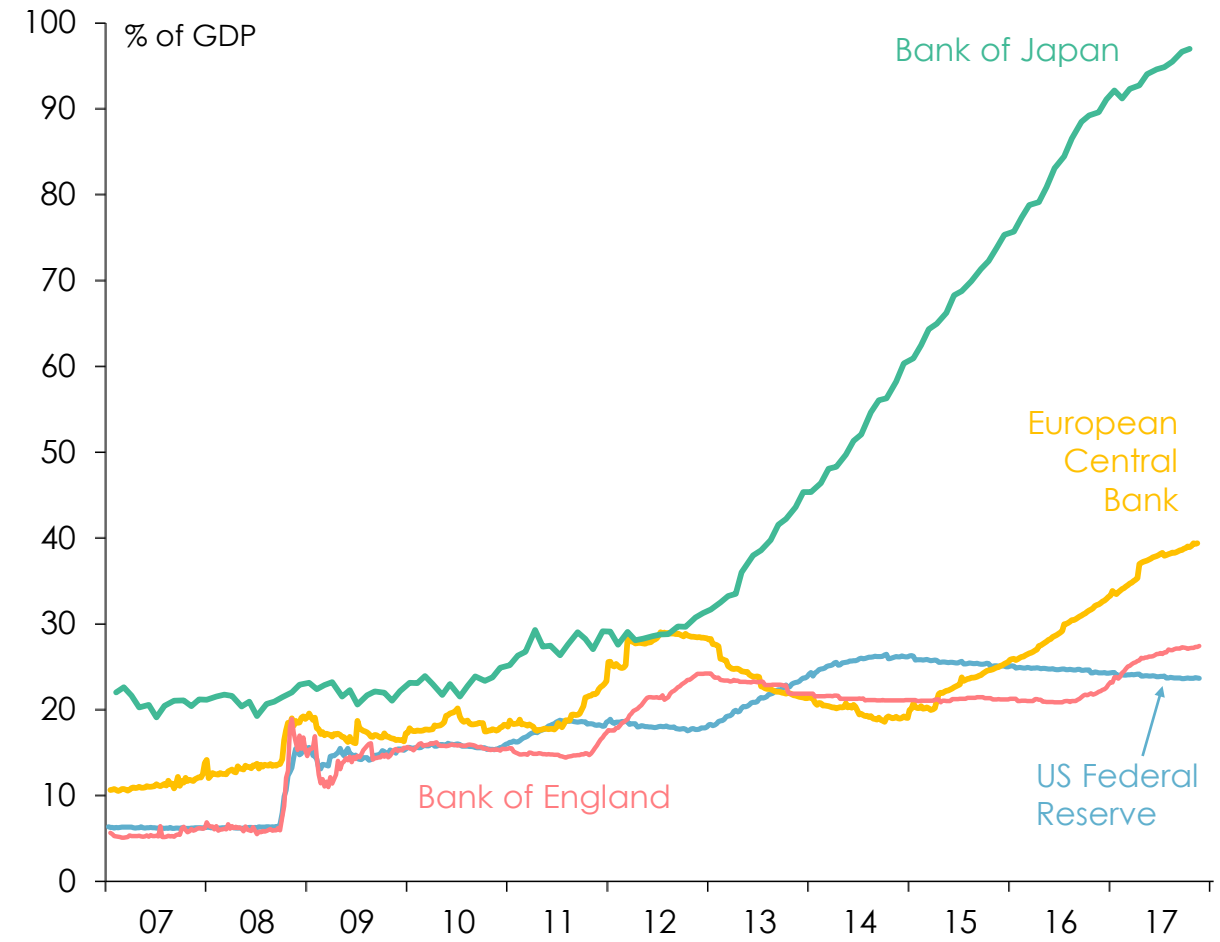
Note: The Atlanta Fed wage tracker is the median pc change in the hourly wage of individuals in the labour force survey 12 months apart.
Sources: US Bureau of Labor Statistics; Federal Reserve Bank of Atlanta.

The US Federal Reserve has already begun the process of returning monetary policy settings gradually back to normal – others will follow

Major 'advanced' economy central bank policy interest rates



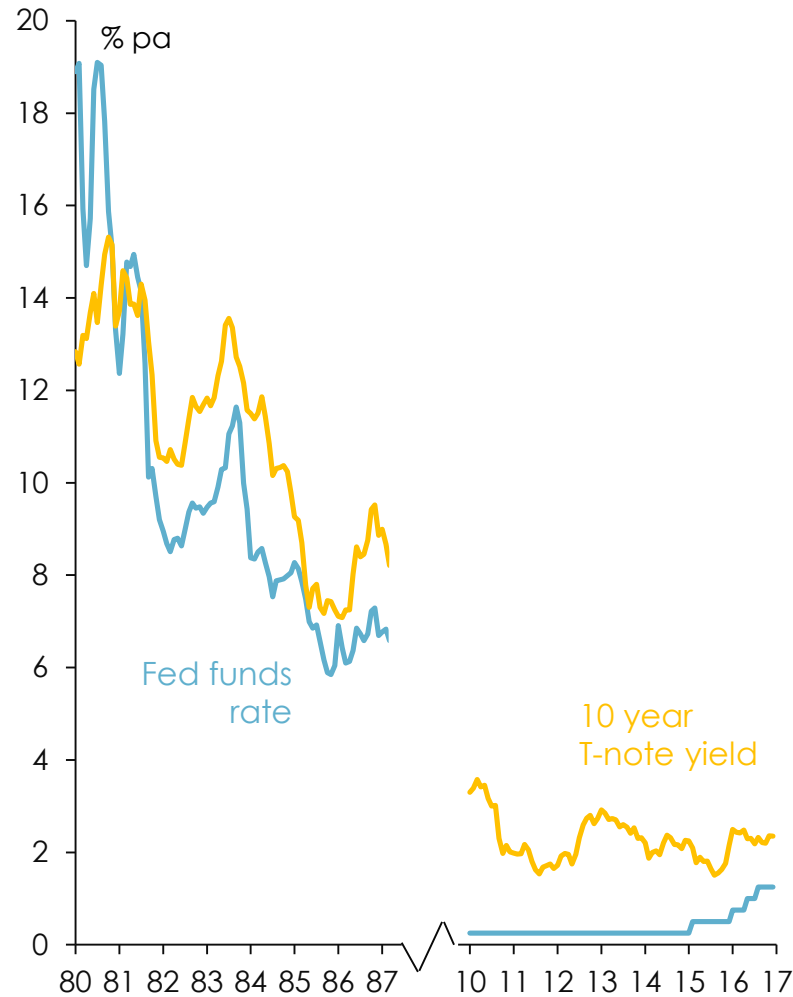
Major 'advanced' economy central bank balance sheets



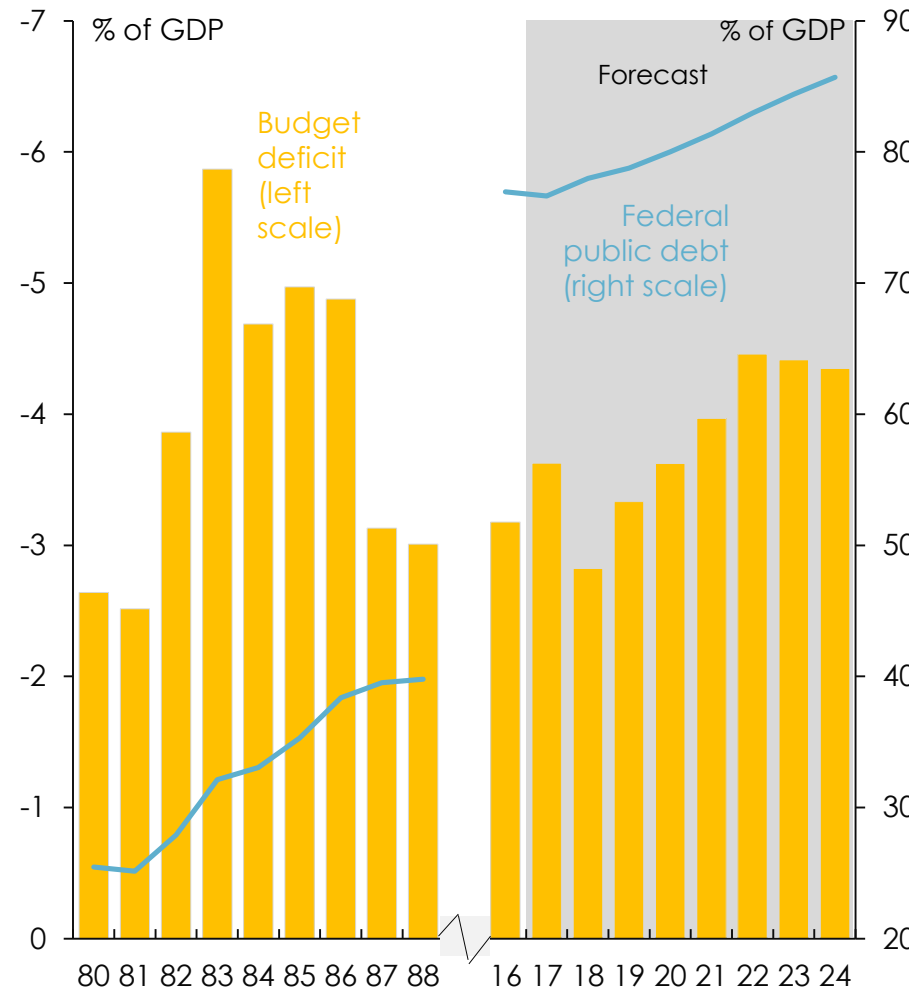
Sources: US Federal Reserve; European Central Bank; Bank of Japan; Bank of England.

Three reasons why Trump's fiscal policies – if they are ever legislated – wouldn't have the same effect as Reagan's

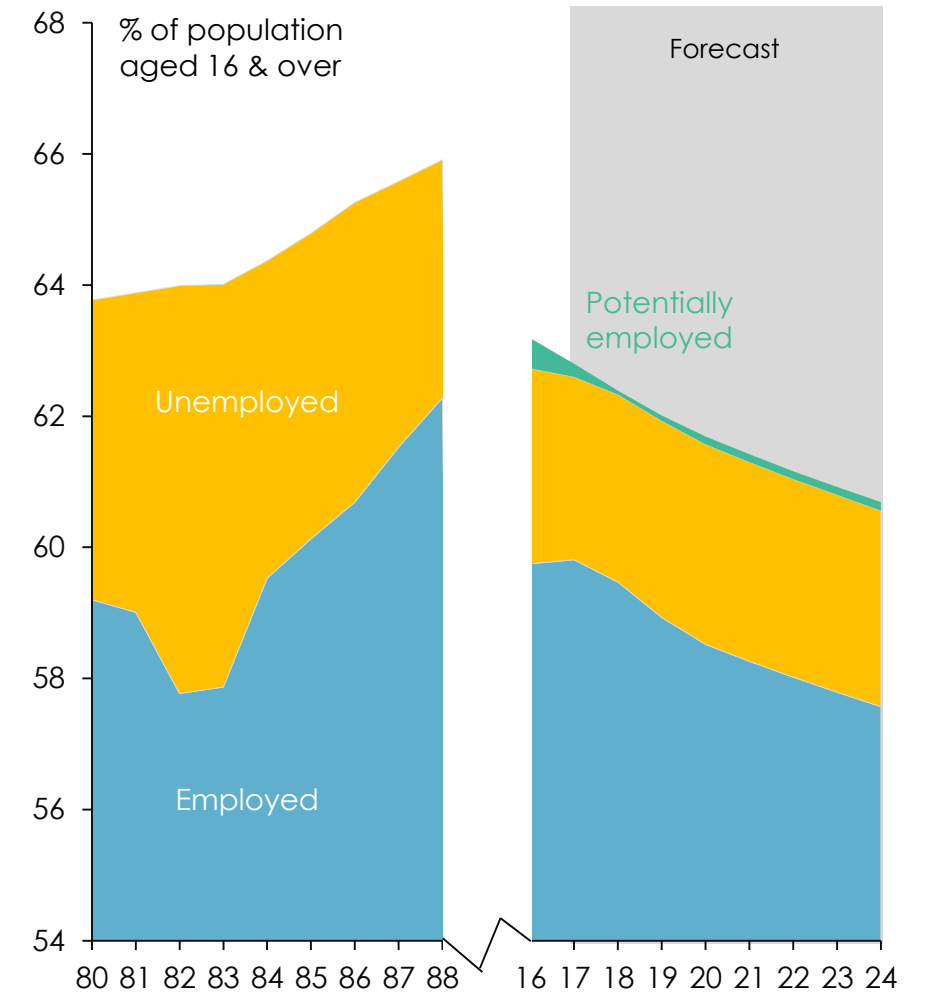
Interest rates



Federal budget and debt



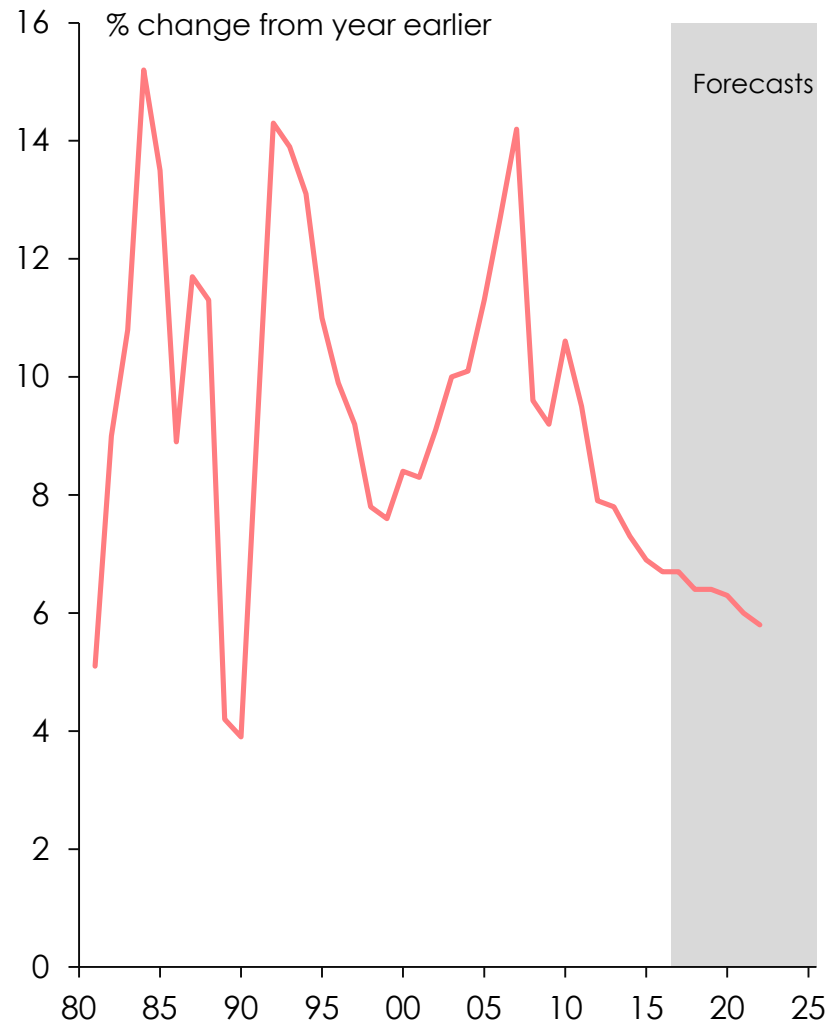
Labour supply



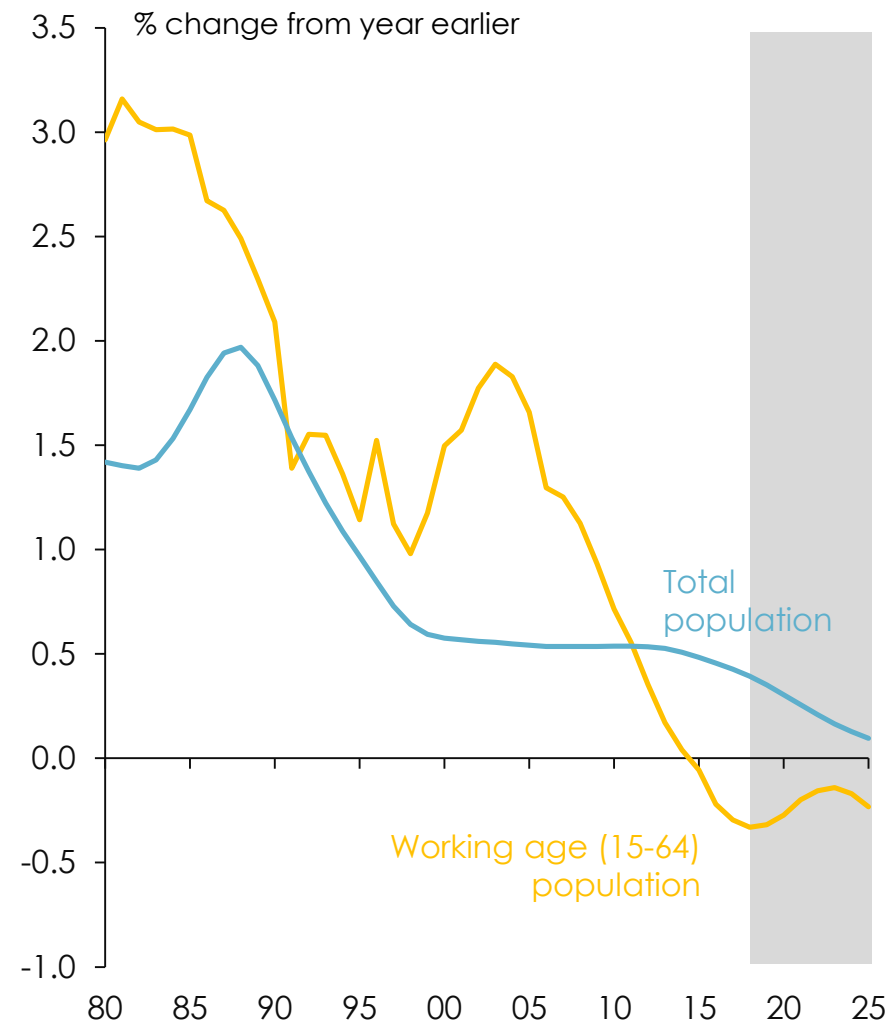
Sources: US Federal Reserve; US Congressional Budget Office.

China's economy is slowing, partly because its workforce has started to shrink – and because productivity growth is slowing

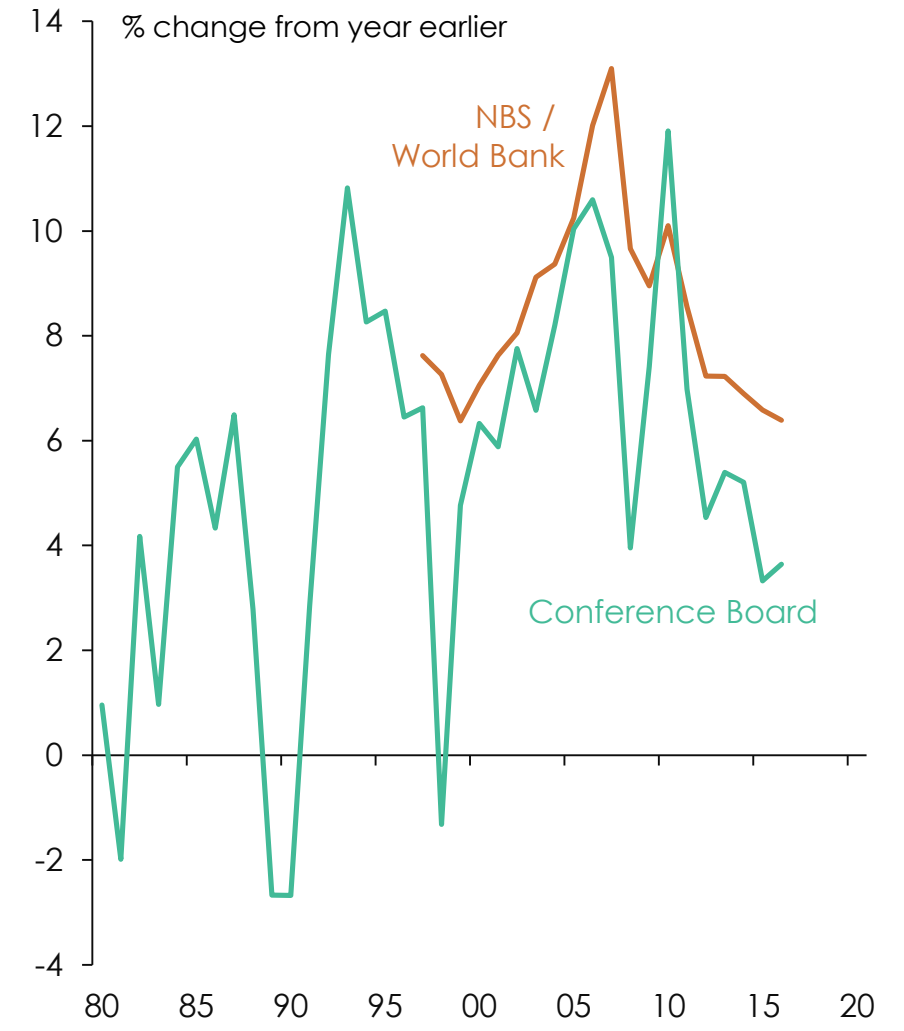
China real GDP growth



Chinese population



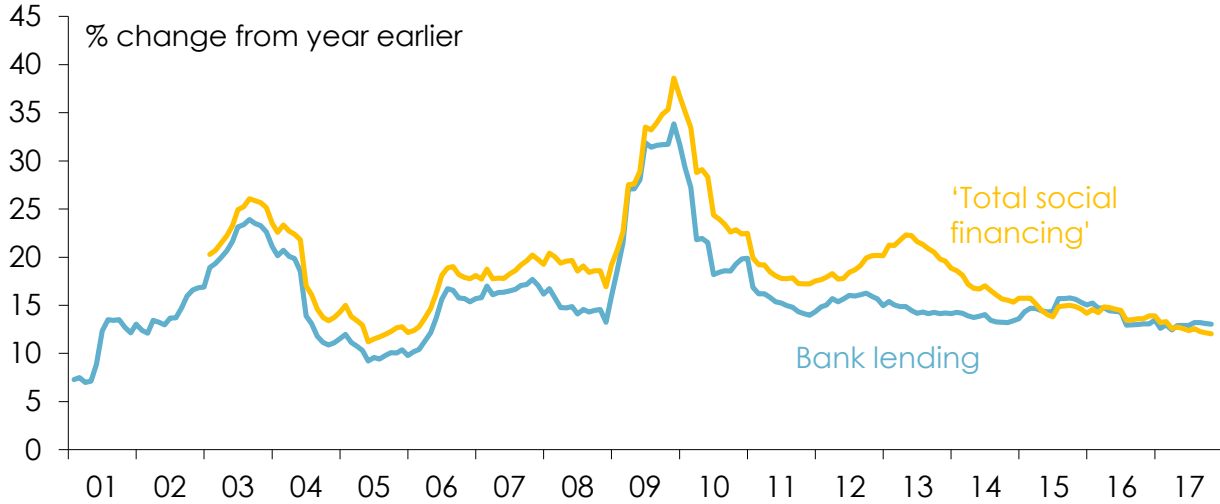
Chinese labour productivity



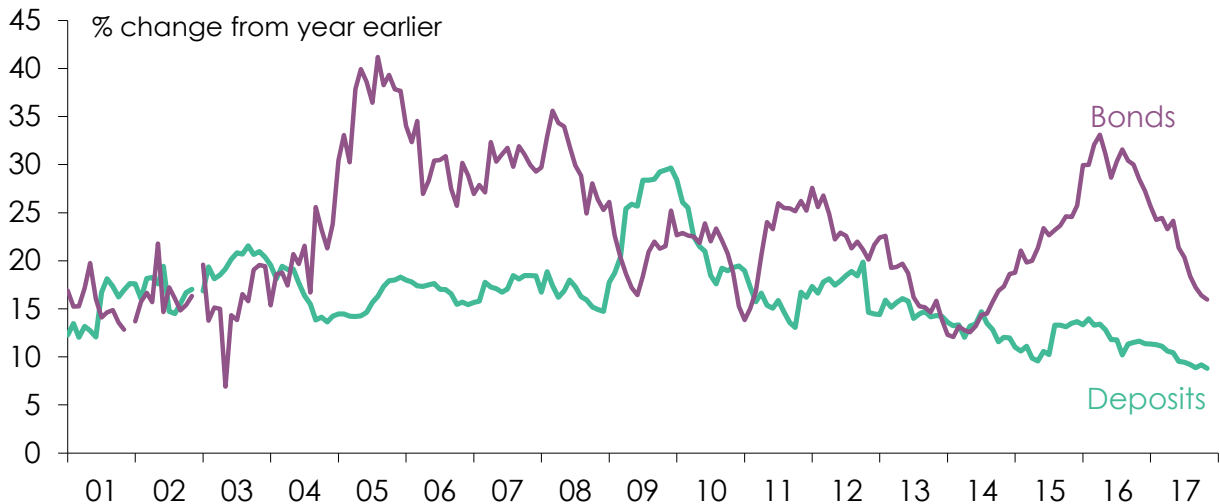
Sources: China National Bureau of Statistics; IMF; UN Economic & Social Affairs Division, Population Branch; The Conference Board; World Bank Group.

From late 2015 through late 2016 the Chinese authorities undertook another round of monetary stimulus – but halted it abruptly in December last year

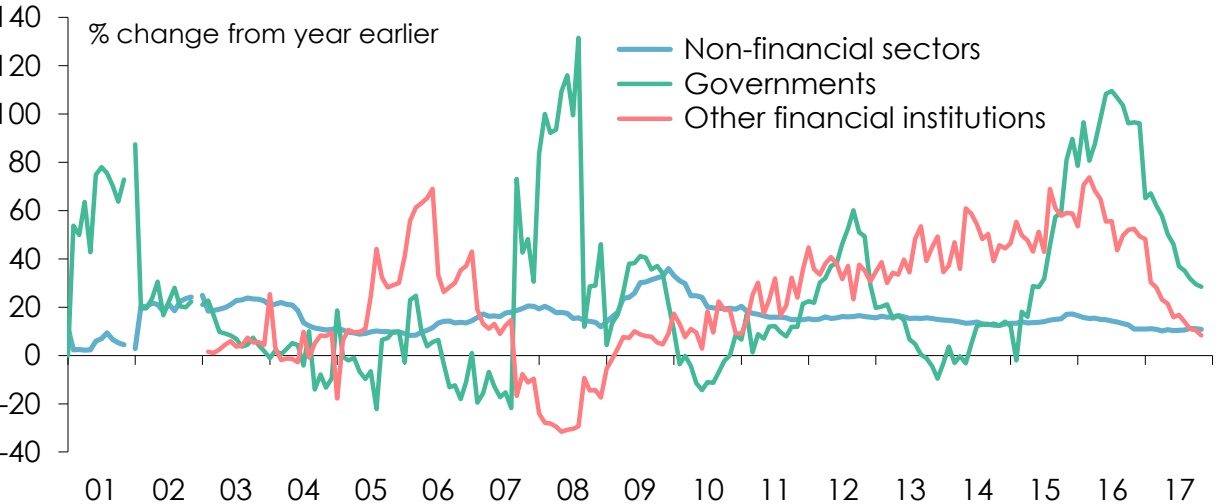
Credit growth - total



Banking system liabilities



Credit growth – by sector



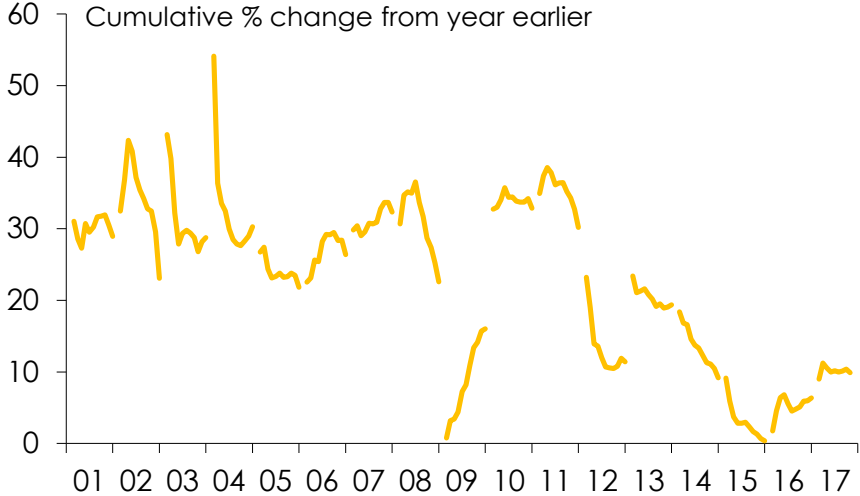
Banking system deposits-to-loans ratio



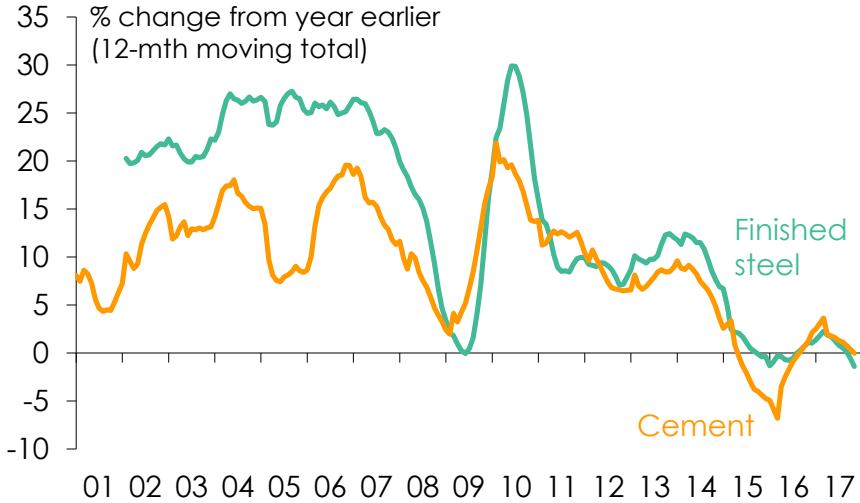
Source: People's Bank of China.

Hence China's latest property cycle has peaked, and steel-making commodity prices will be heading down again

Real estate investment



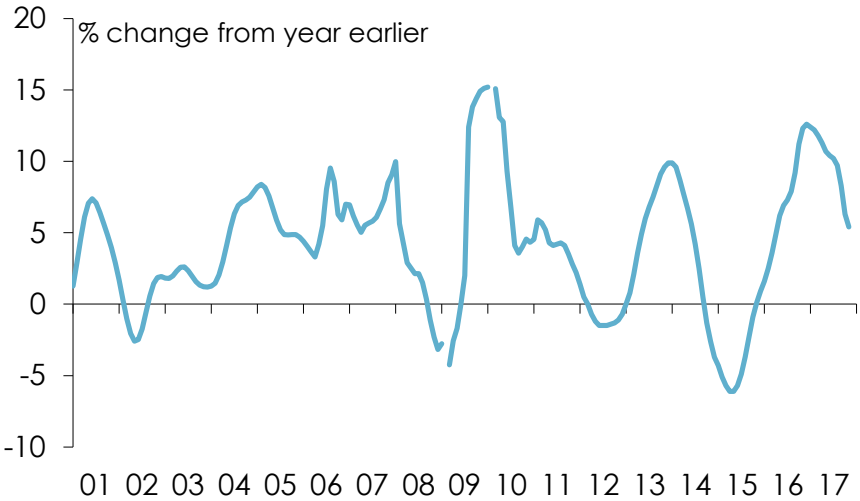
Steel and cement production



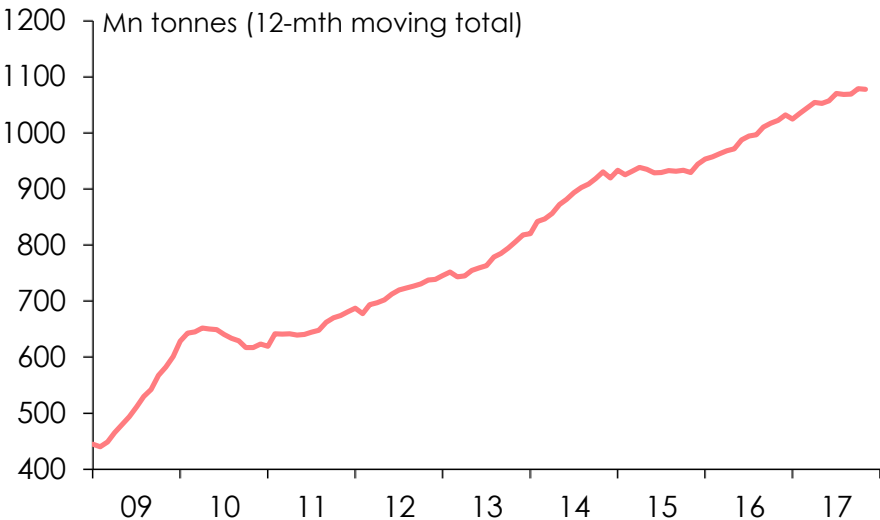
Iron ore prices



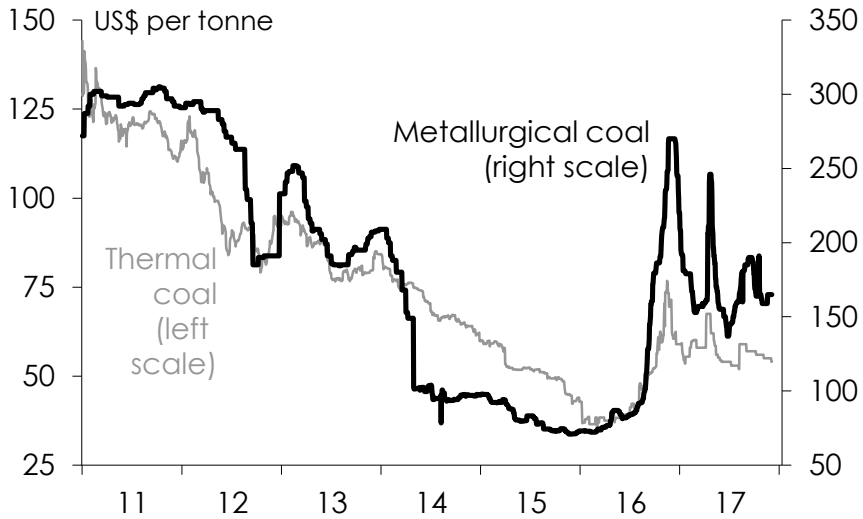
Urban property prices



Iron ore imports



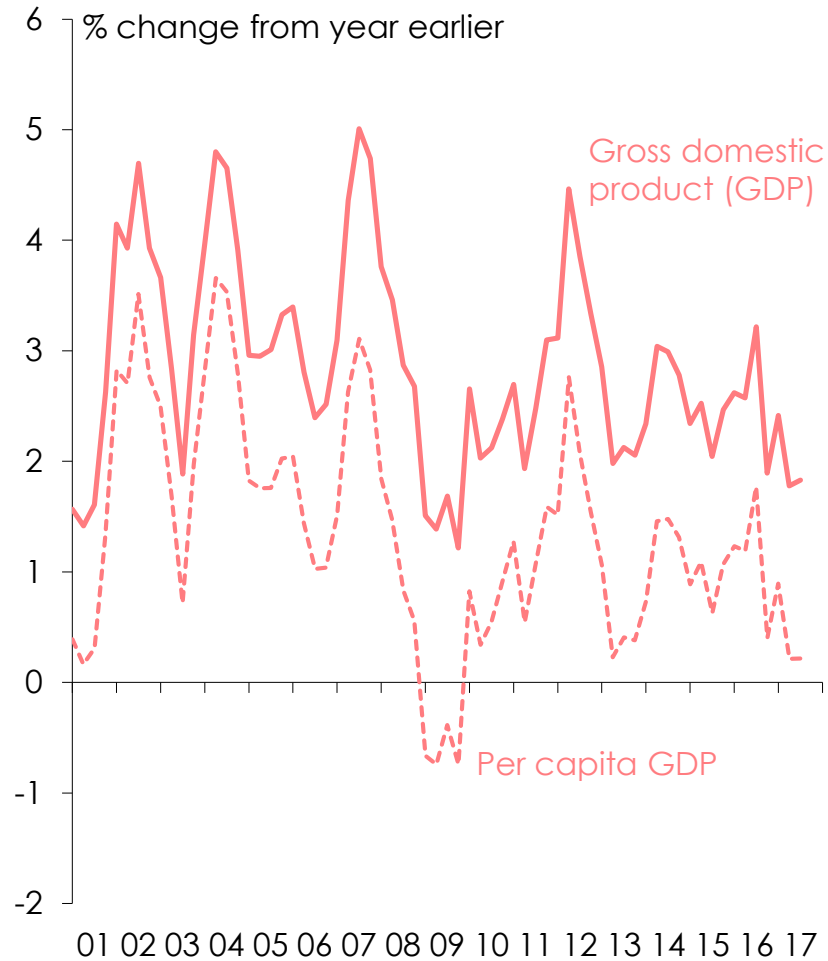
Coal prices



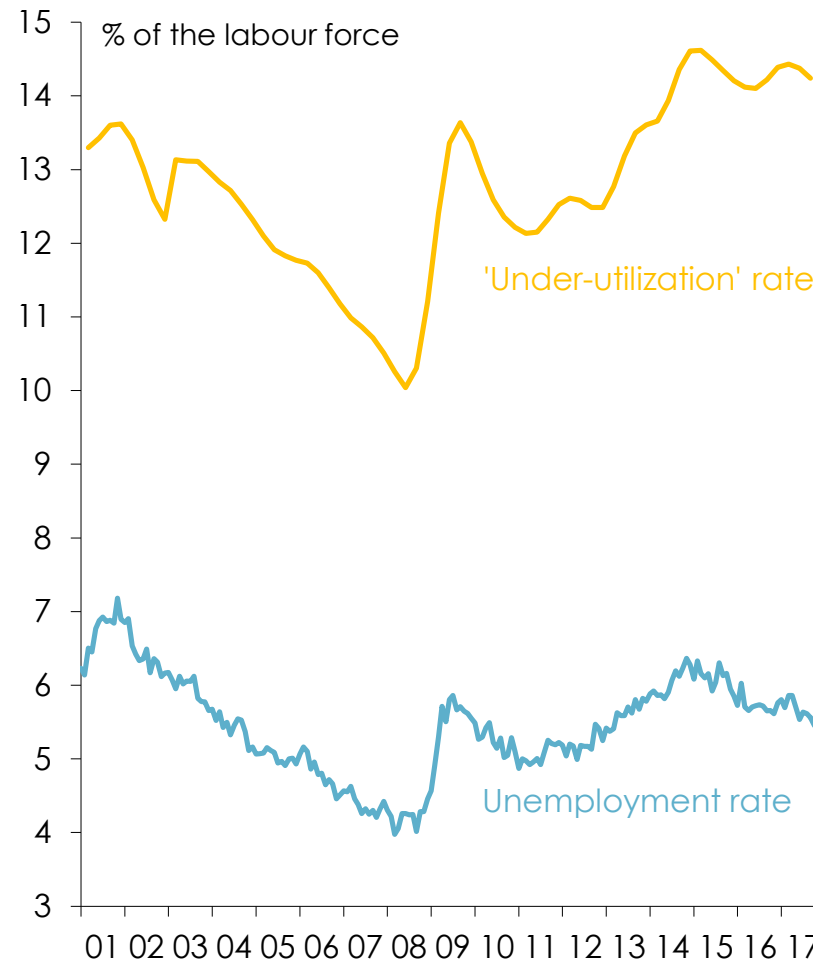
The Australian economy

Australian economic growth is lower than it should be, unemployment is higher than it should be, and inflation is lower than the RBA wants

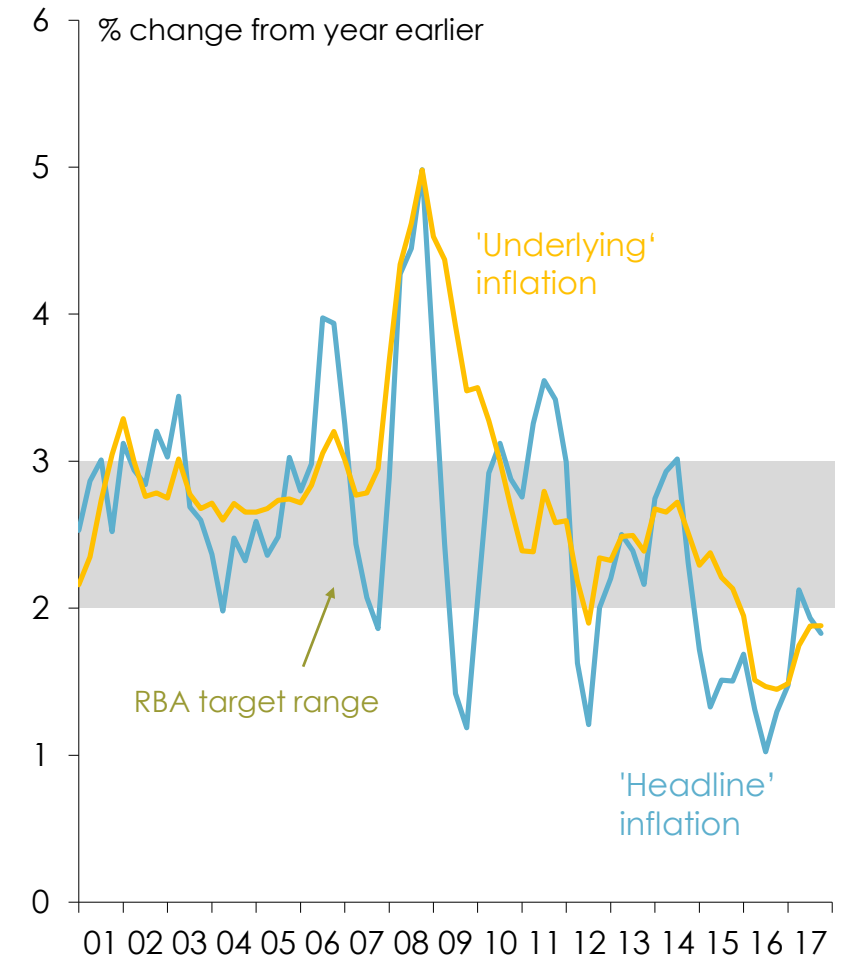
Economic growth



Unemployment and under-employment



Consumer prices

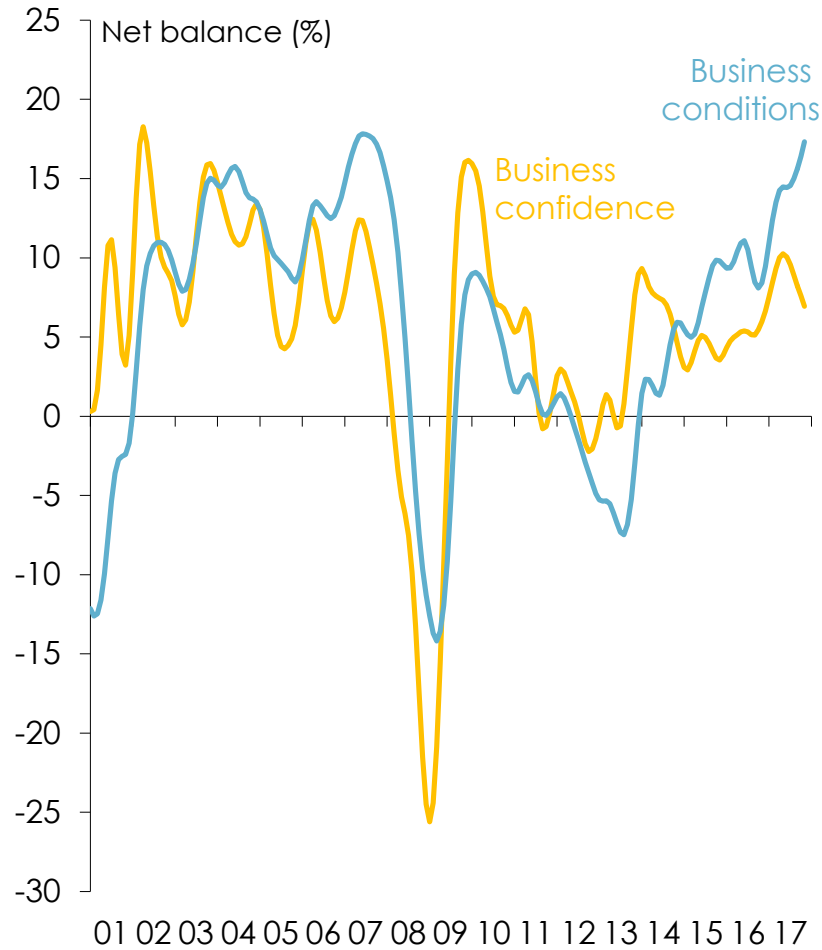


Note: The labour force 'under-utilization' rate includes people employed part-time who are willing and able to work longer hours (and weights them equally with people who are 'unemployed' in the conventional sense). 'Underlying' inflation abstracts from the impact of volatile items (typically items such as petrol, or fruit and vegetables) on the CPI.

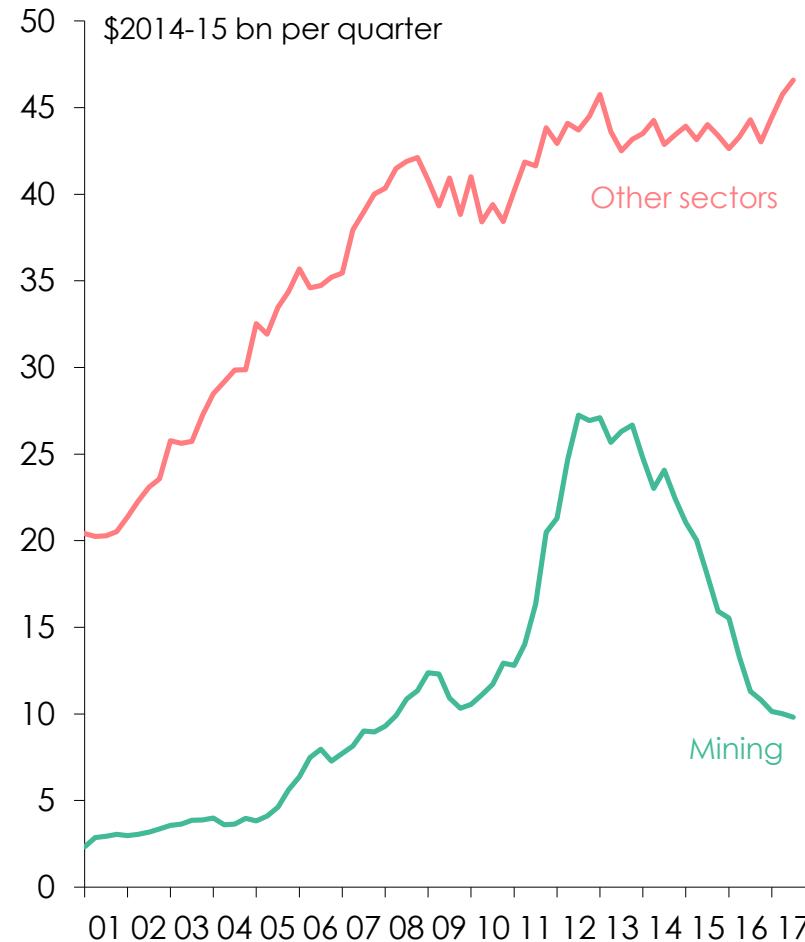
Source: Australian Bureau of Statistics.

Australian business conditions are clearly improving, and that is fostering a long-awaited pick-up in (non-mining) business investment

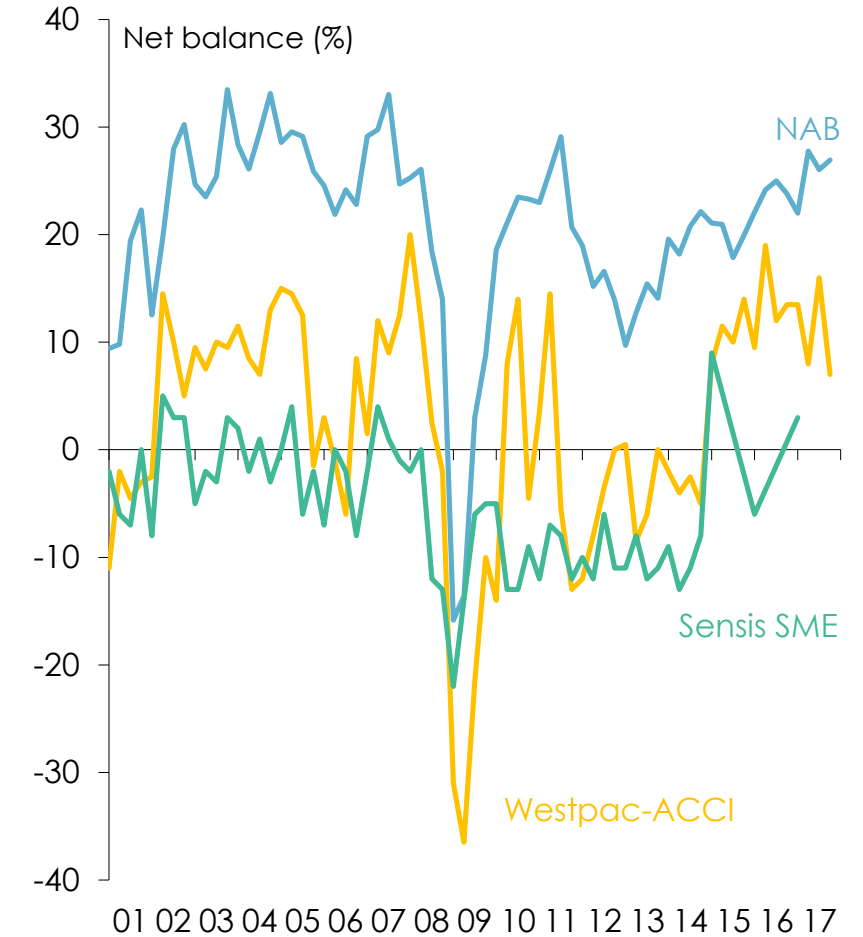
Business confidence



Business investment – mining vs other sectors



Business survey capital expenditure expectations

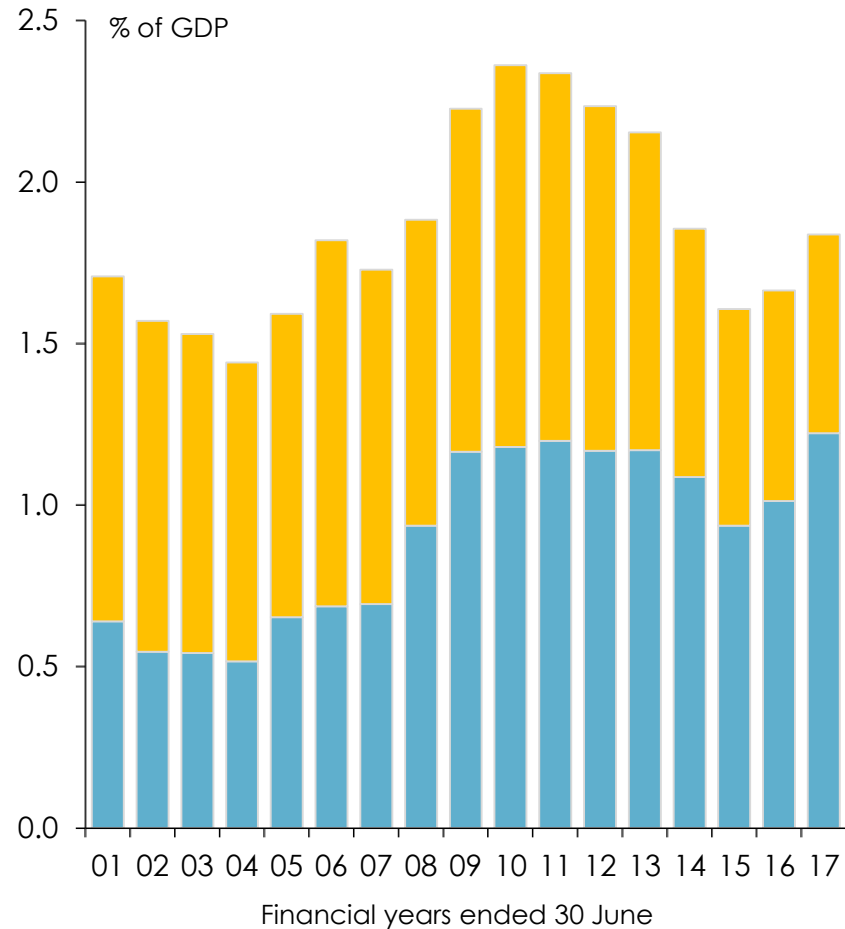


Sources: National Australia Bank; ABS; Westpac and Australian chamber of Commerce & Industry; Sensis.

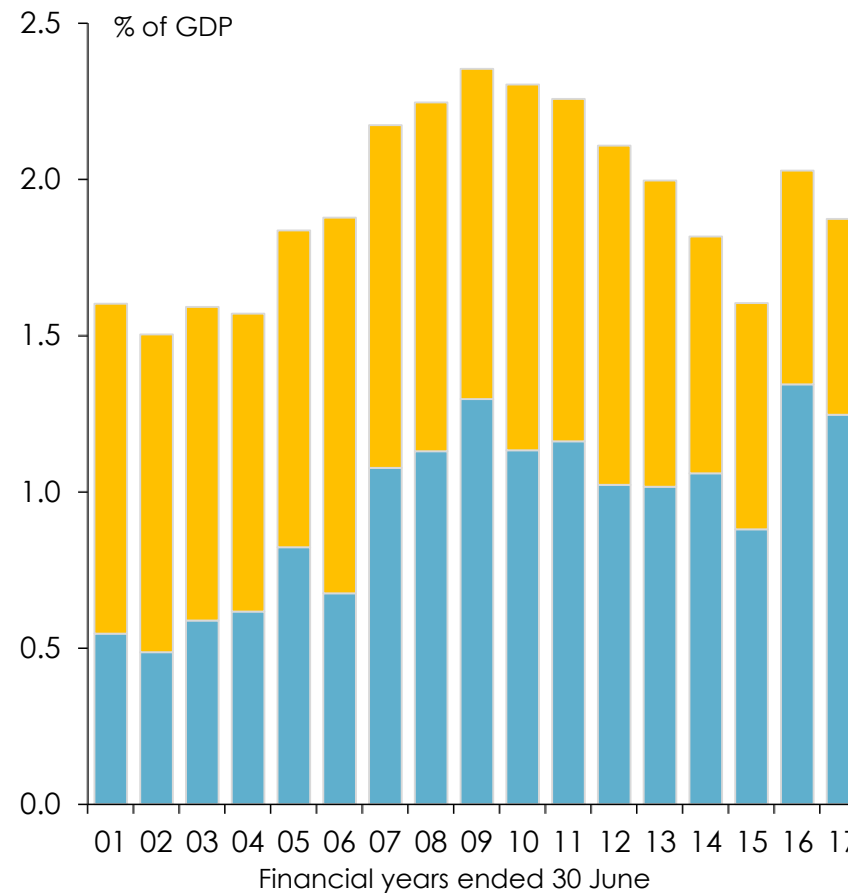
Higher levels of infrastructure investment spending are now beginning to provide some real impetus to economic growth

Indicators of engineering construction activity for the public sector

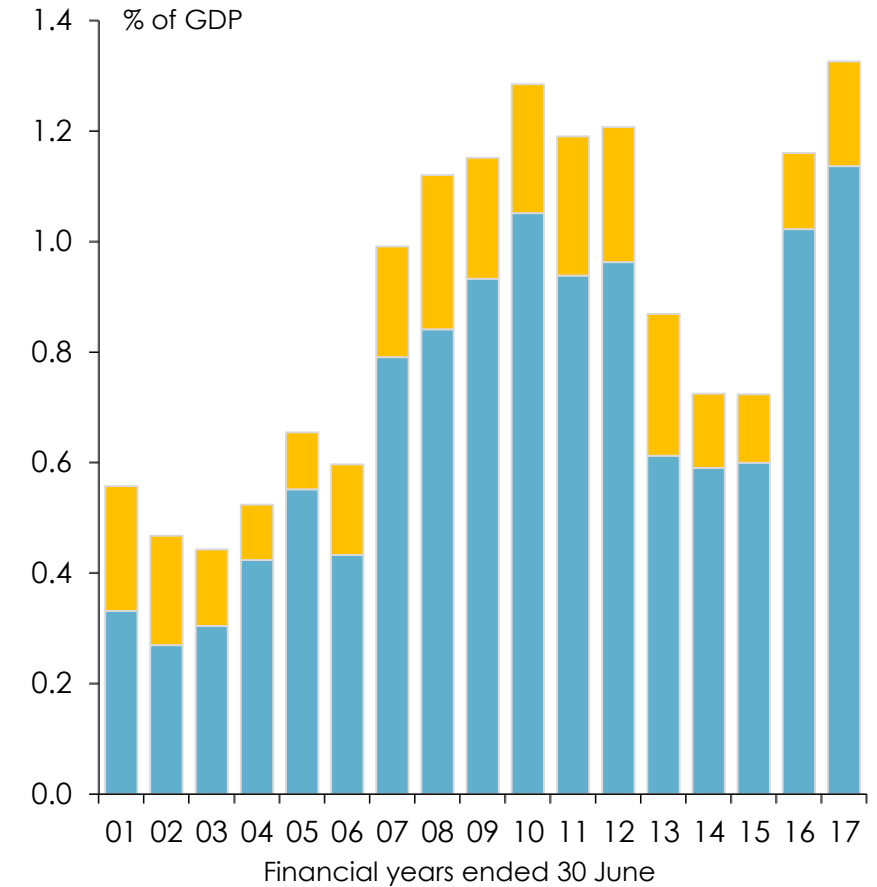
Value of work done



Commencements



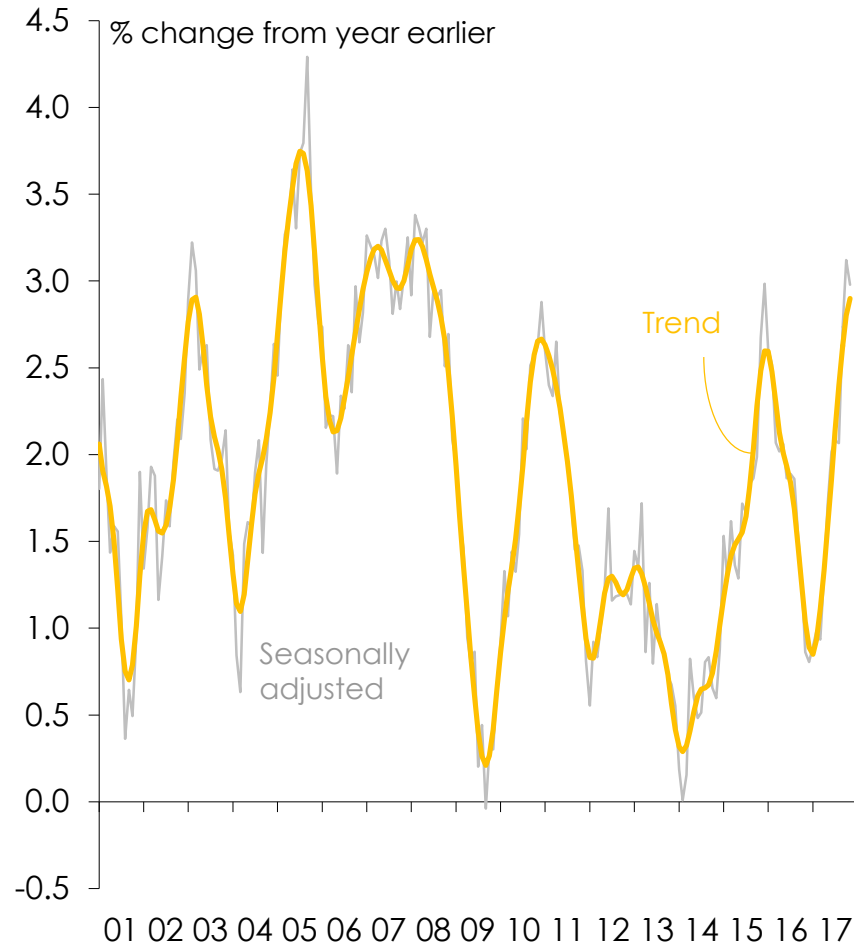
Work yet to be done



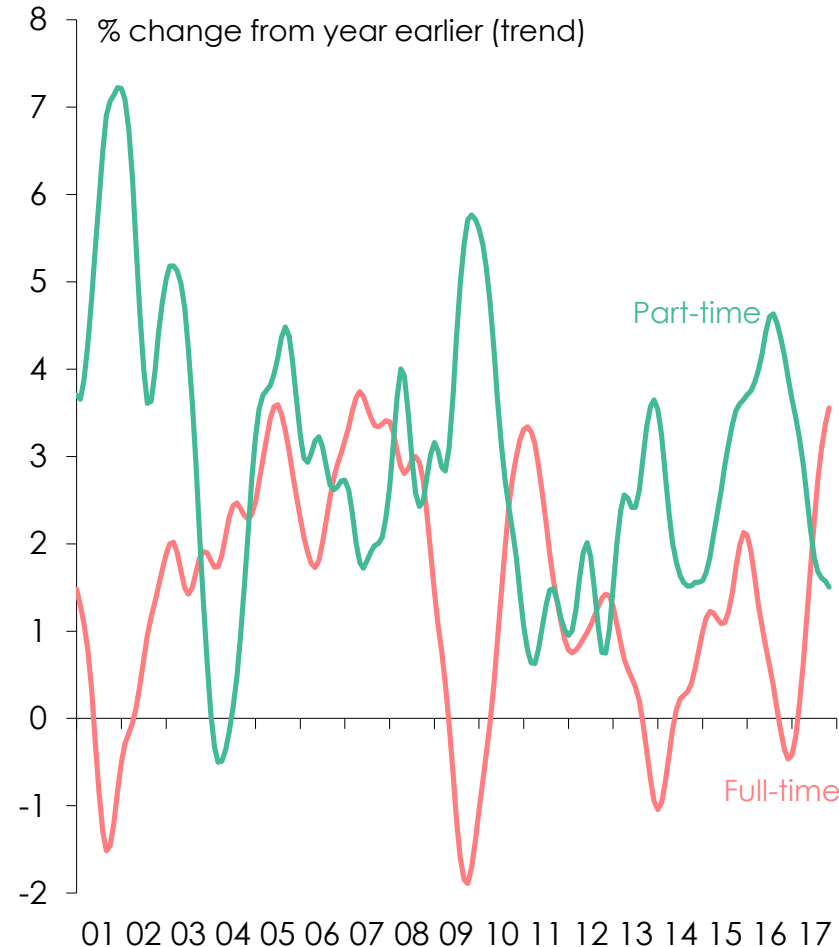
■ Work by the private sector for the public sector
 ■ Work by the public sector for the public sector

Employment growth has picked up – this time led by full-time employment – and seems likely to be sustained

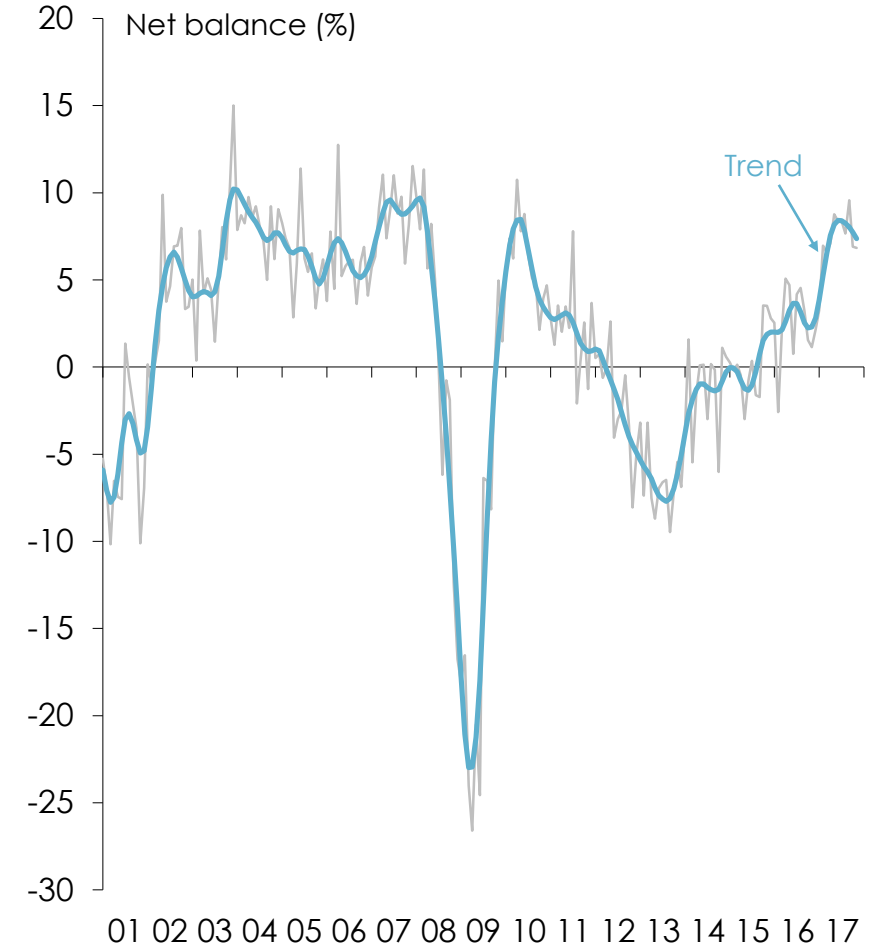
Employment growth



Full-time vs part-time employment



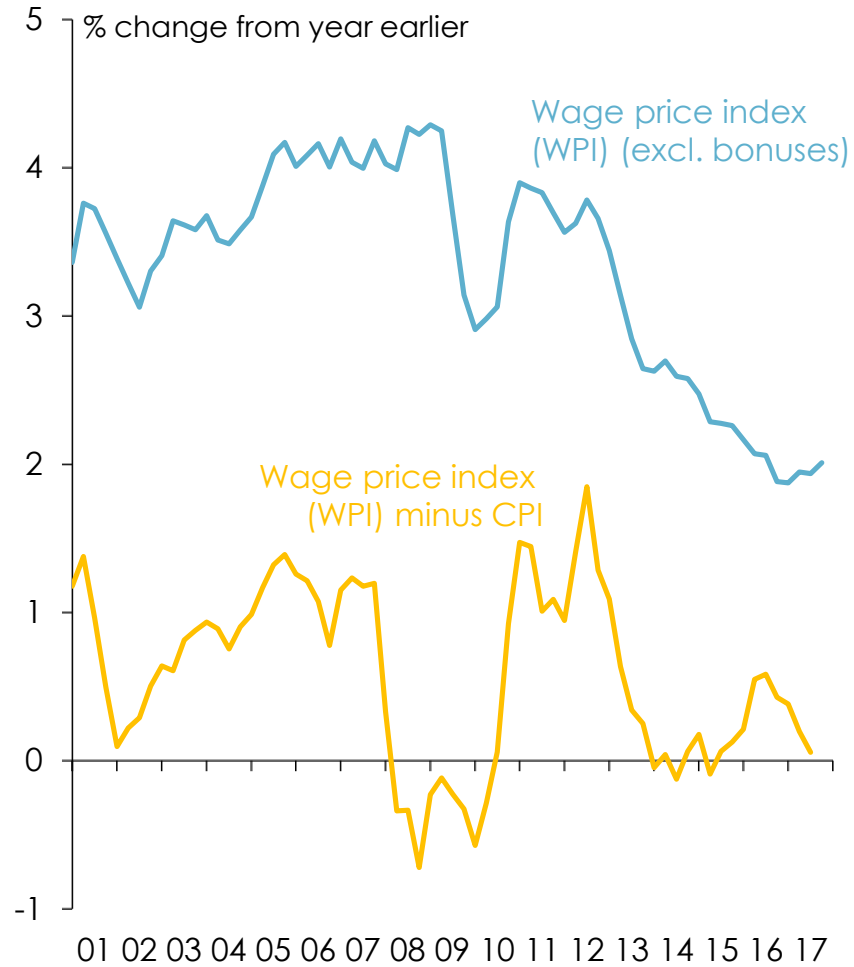
NAB business survey – employer hiring intentions



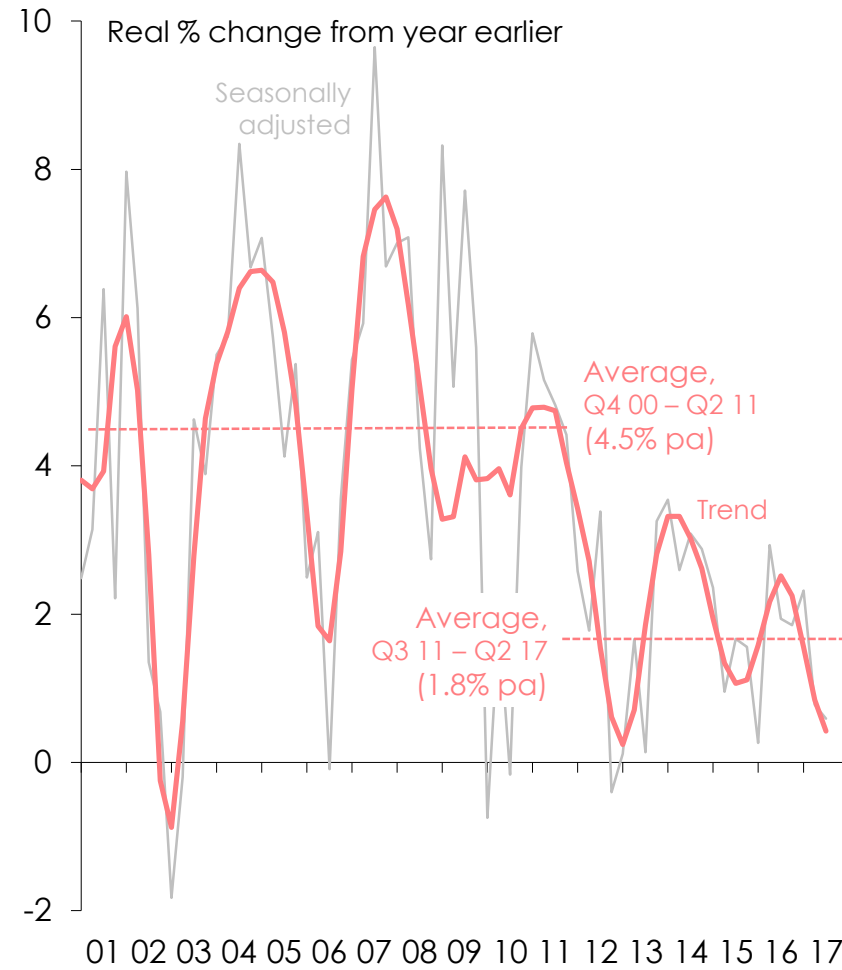
Sources: ABS; National Australia Bank.

Sluggish wages growth has meant weak growth in household incomes and depressed levels of consumer confidence

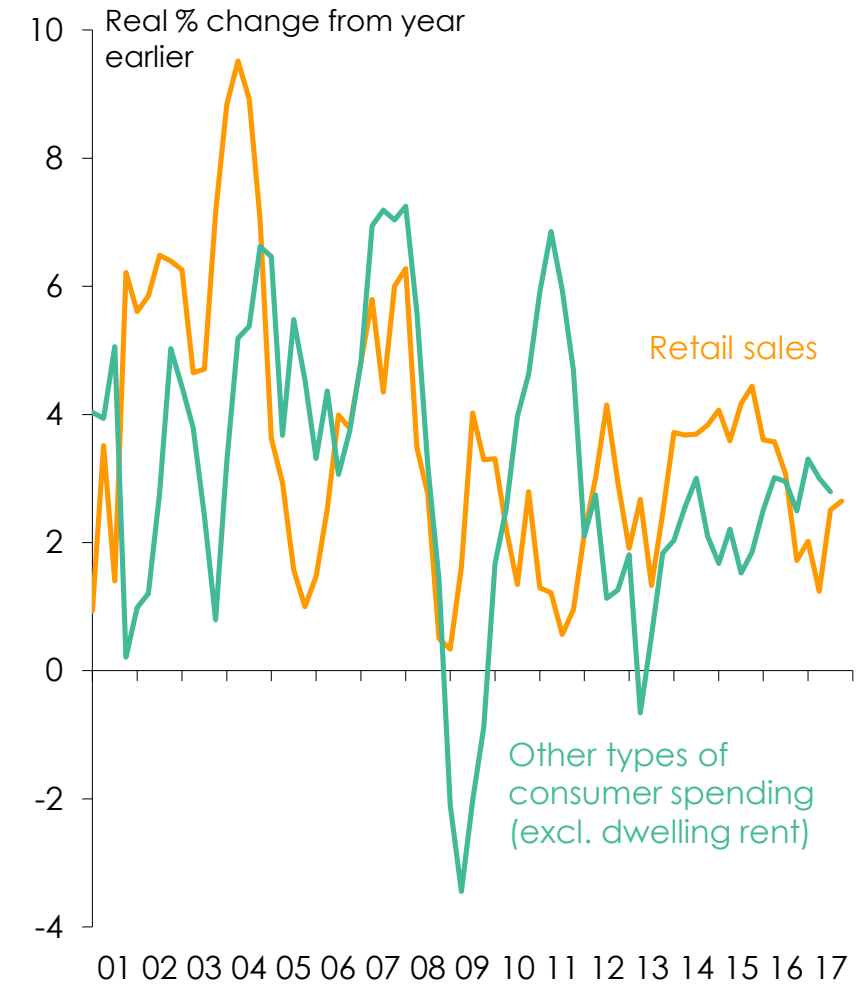
Nominal and real wages



Household disposable income



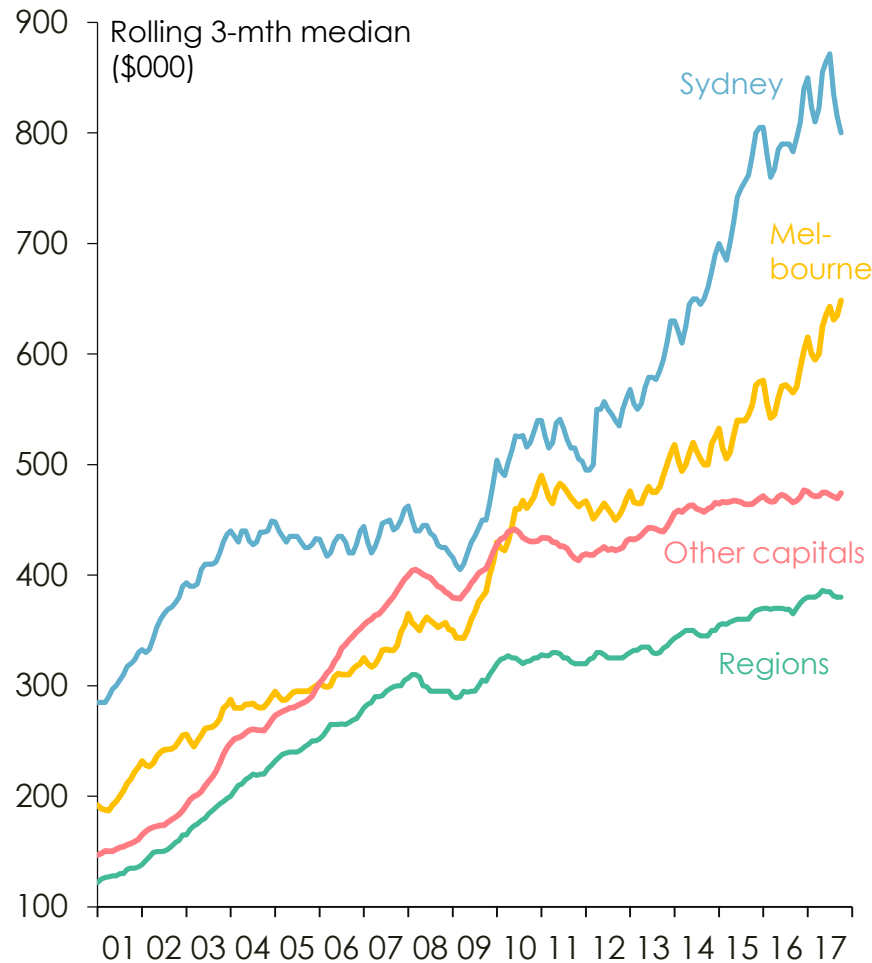
Household consumption expenditure



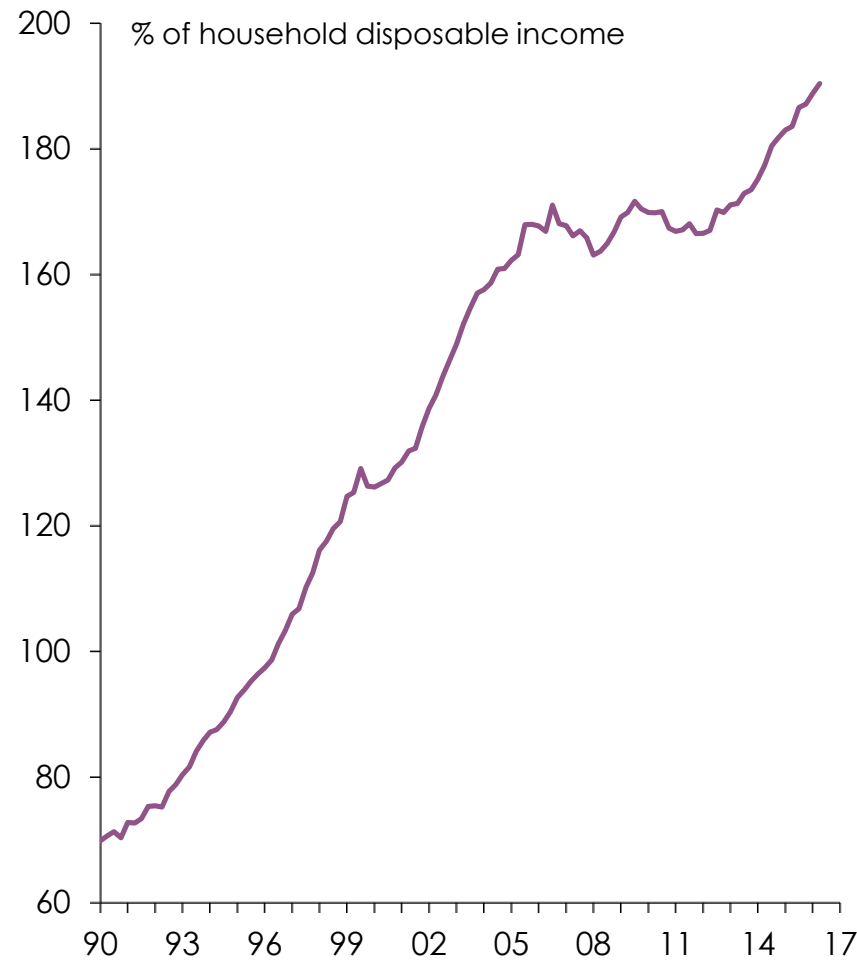
Source: ABS

The RBA doesn't want to cut rates any further for fear that it would only encourage further increases in house prices and household debt

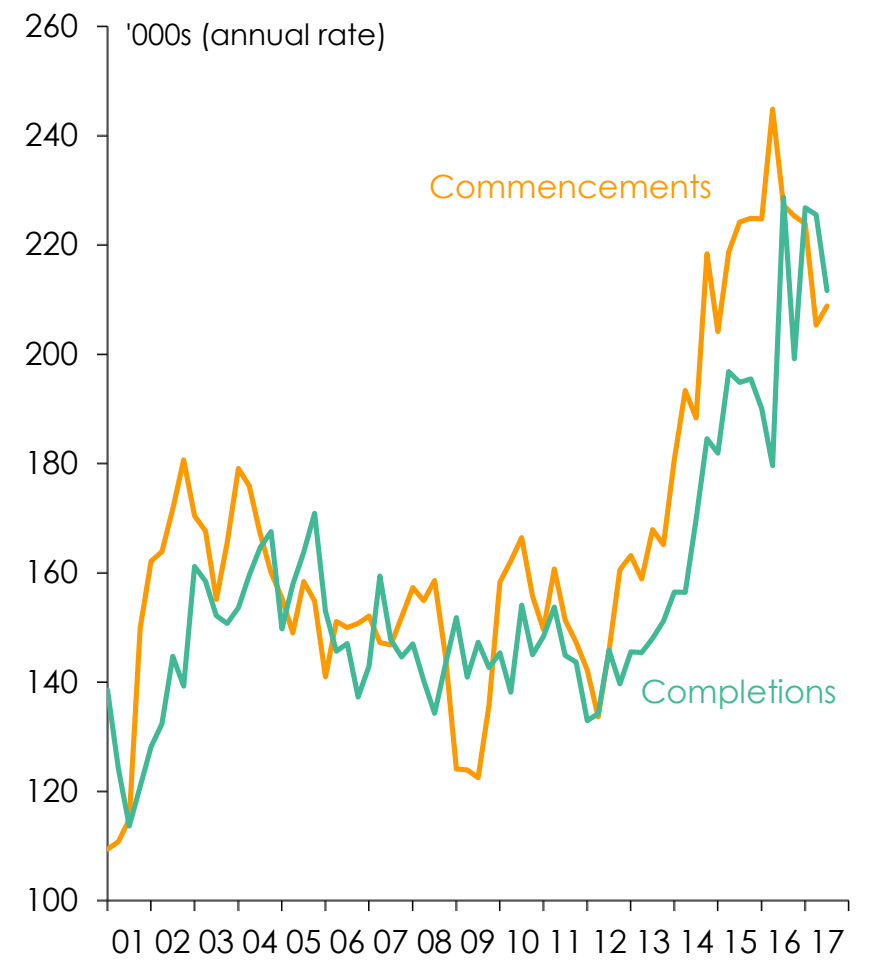
Housing prices – Sydney & Melbourne vs the rest



Household debt



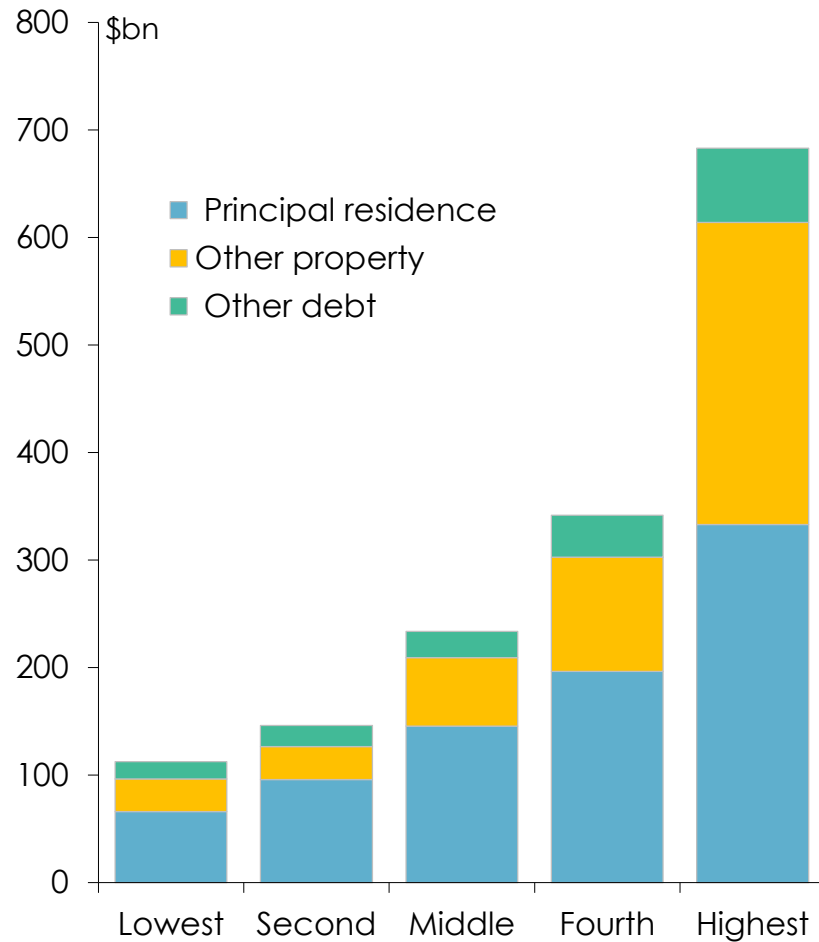
Housing construction activity



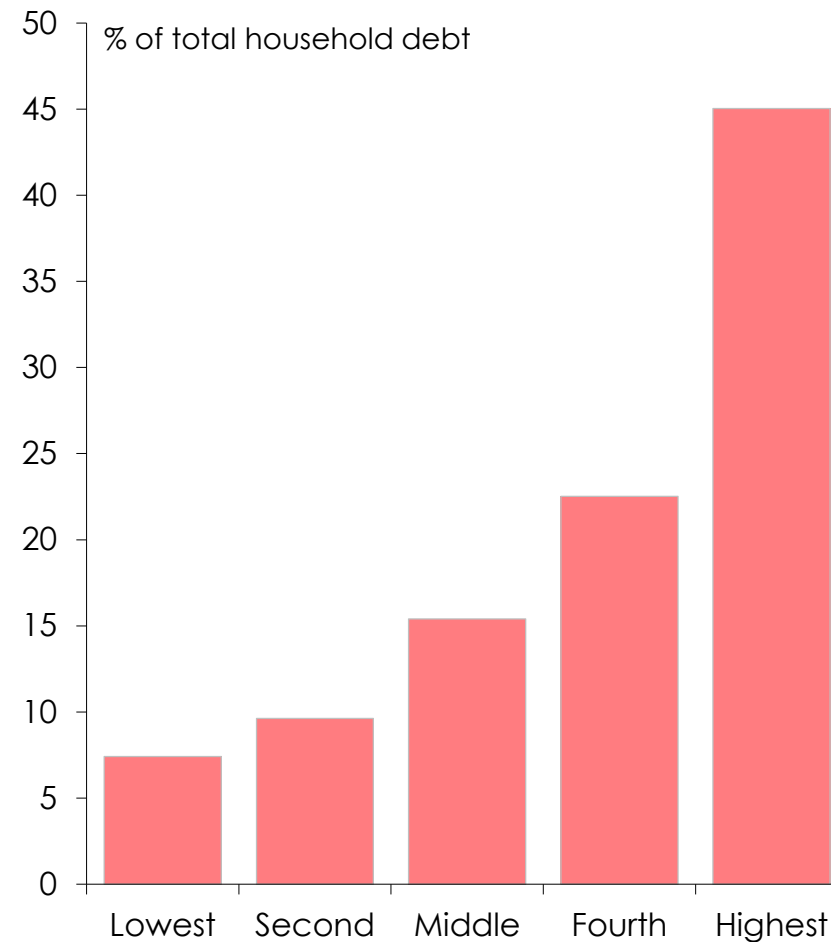
Source: CoreLogic – RP Data; Australian Bureau of Statistics; Reserve Bank of Australia.

Two-thirds of Australian household debt is owed by the richest 40% of households – and that has barely changed over the past dozen years

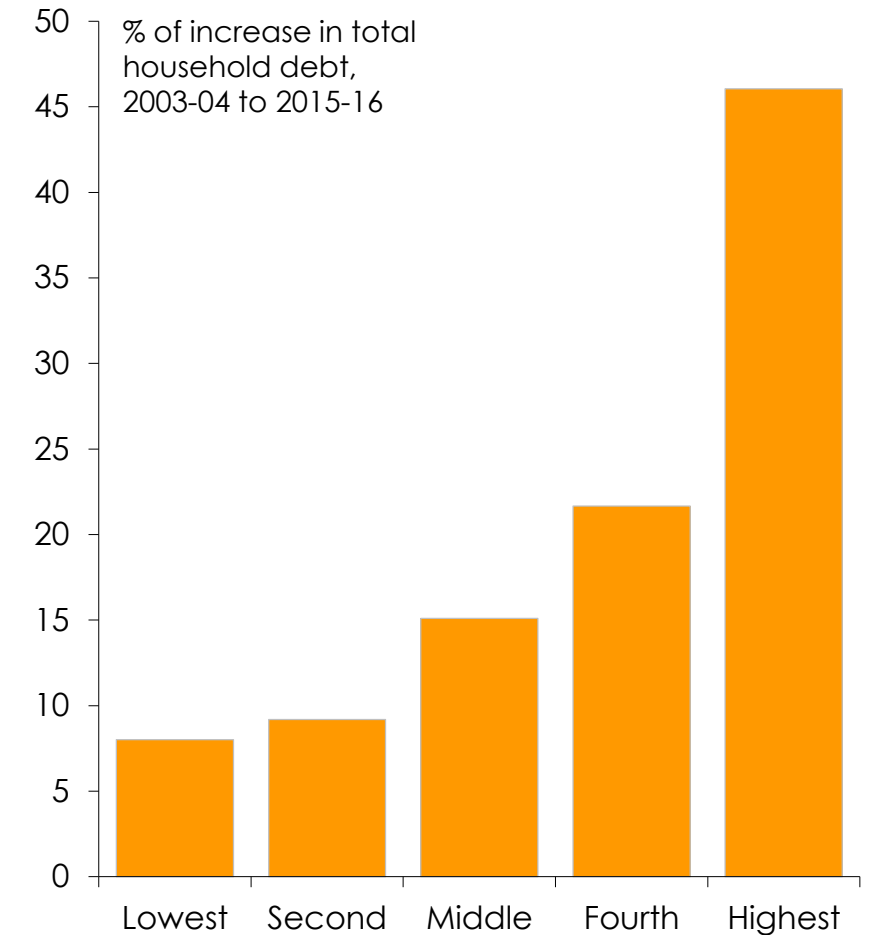
Household debt by income quintile, 2015-16



Share of total debt by income quintile, 2015-16



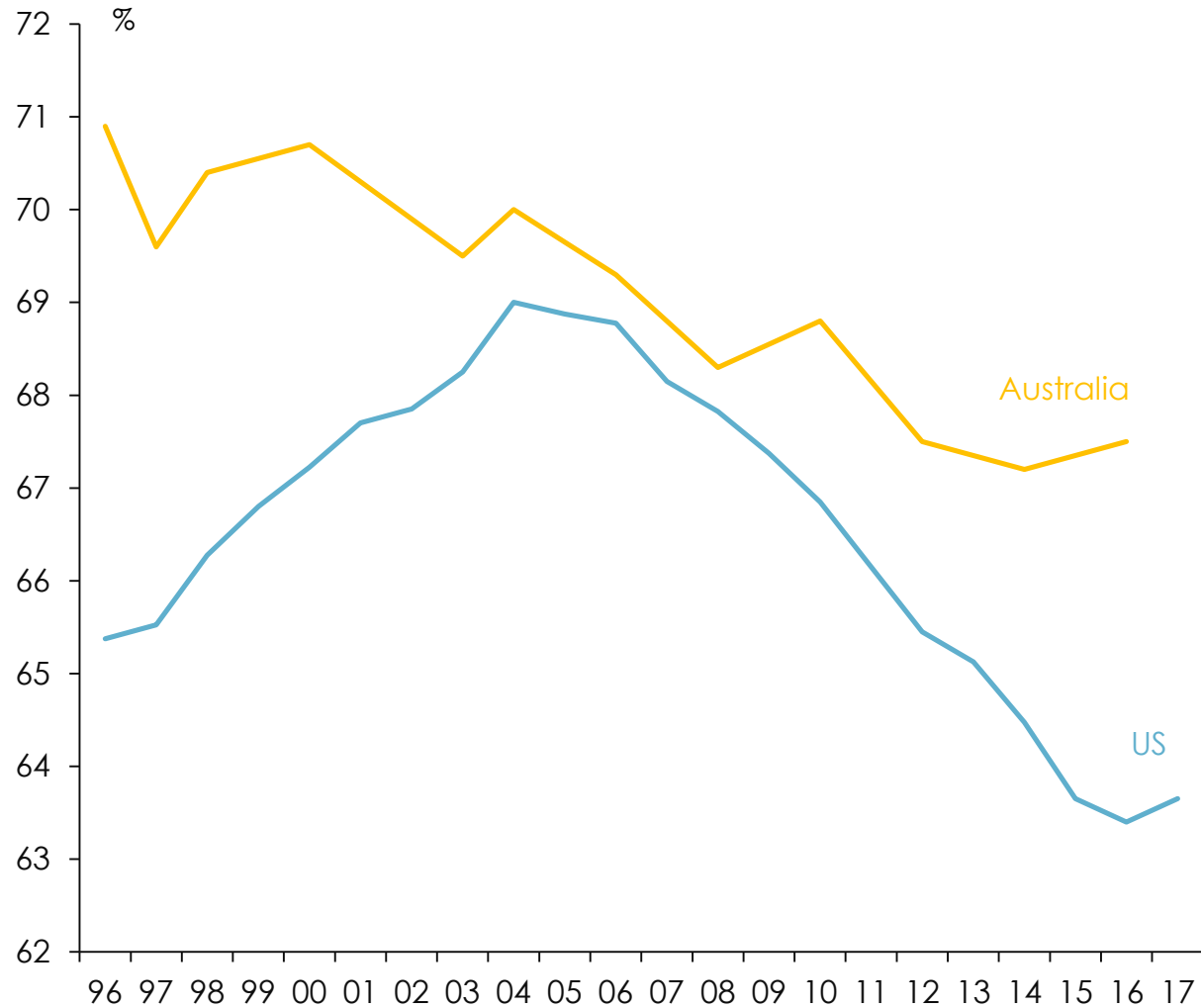
Share of increase in debt by quintile, 2003-04 to 2015-16



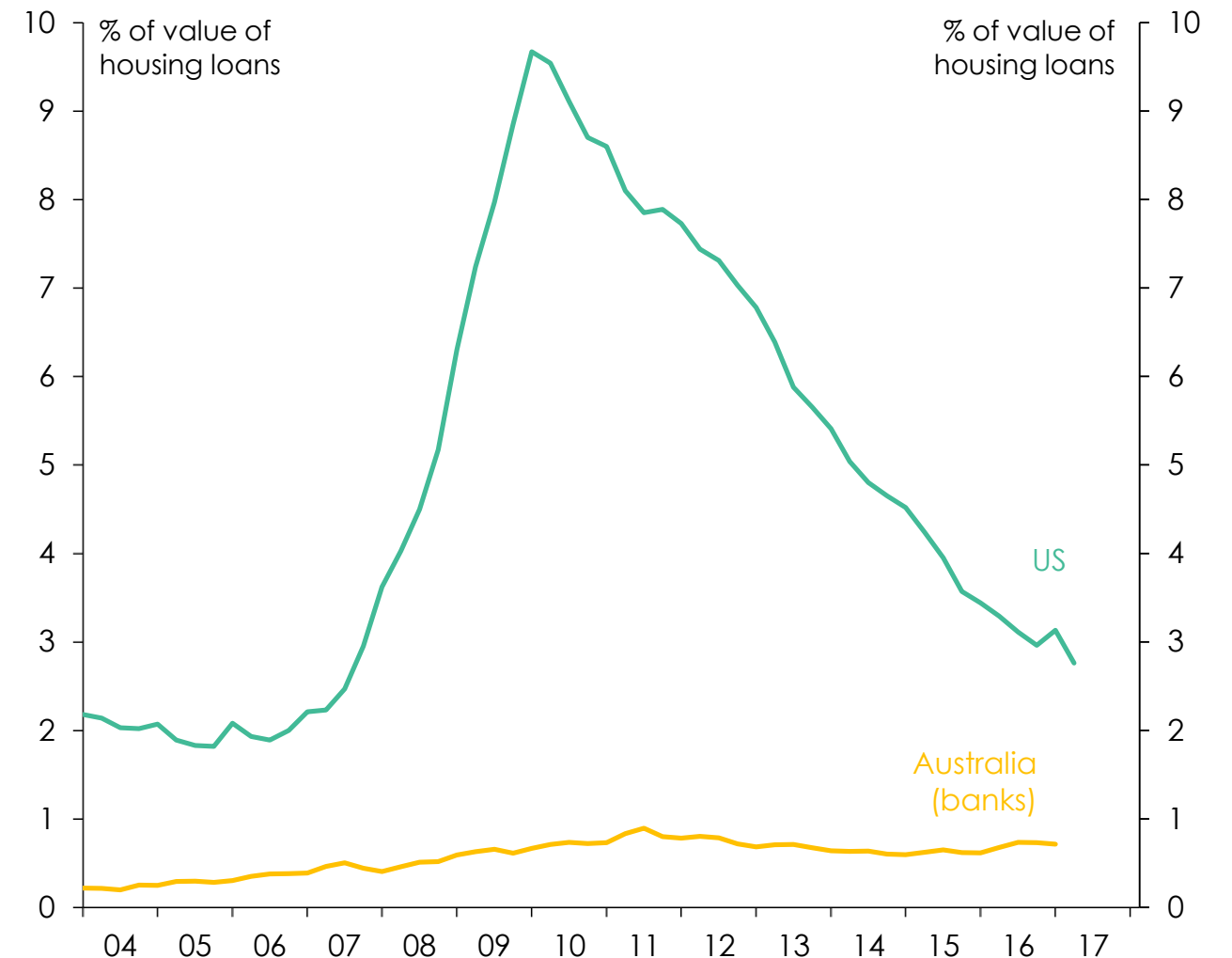
Source: ABS.

There's unlikely to be a lot of 'forced sellers' in Australia, as there were in the US

Home ownership rates, US and Australia



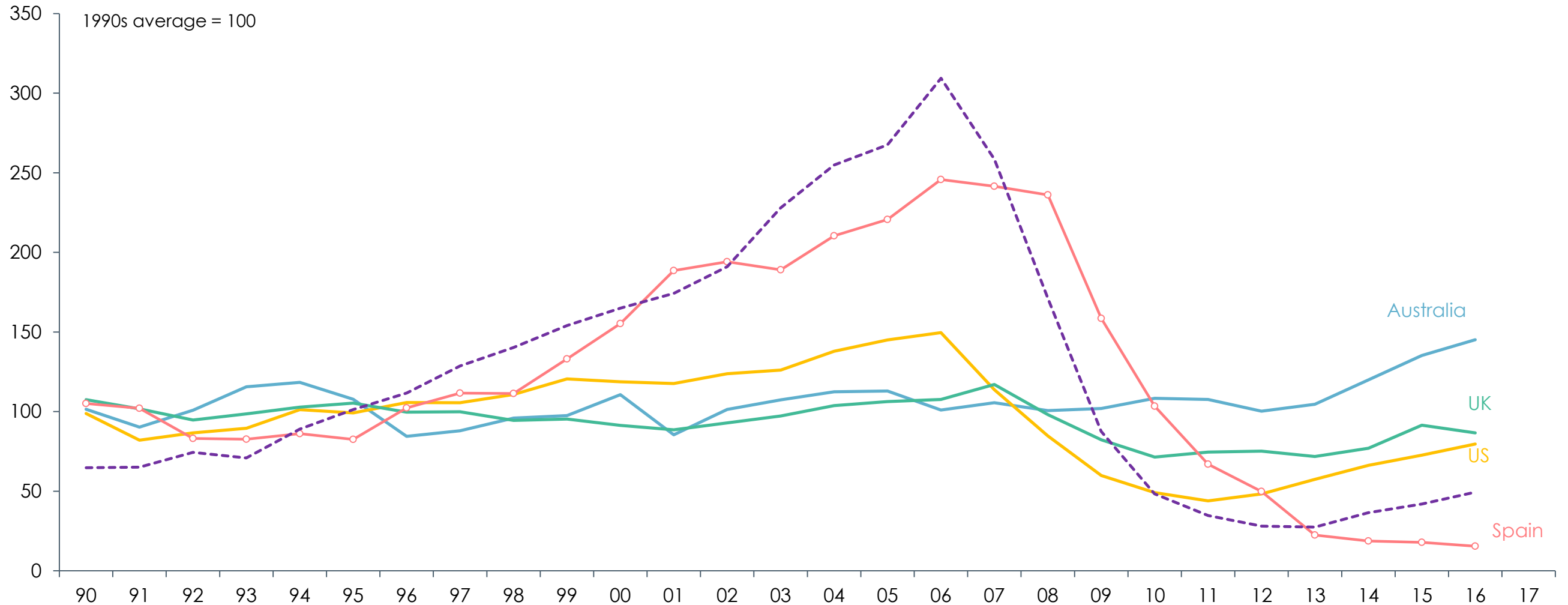
Mortgage delinquency rates, US and Australia



Sources: ABS, US Department of Commerce; Reserve Bank of Australia; Mortgage Bankers' Association of America.

... and they're less likely to be selling into an 'over-supplied' market than in the US, Spain or Ireland a decade ago

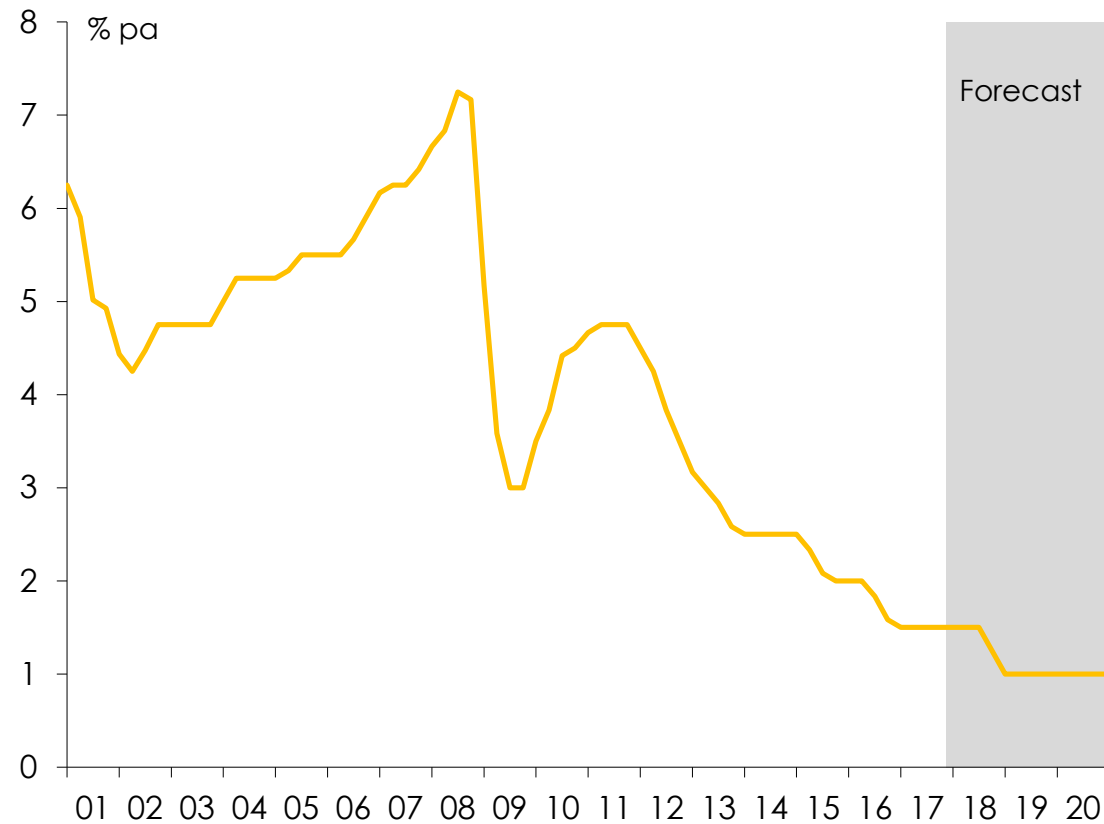
Dwelling completions – Australia and other 'advanced' economies



Sources: Australian Bureau of Statistics; US Commerce Department; UK Office of National Statistics; Instituto Nacional de Estadística d'España; Ireland Central Statistics Office

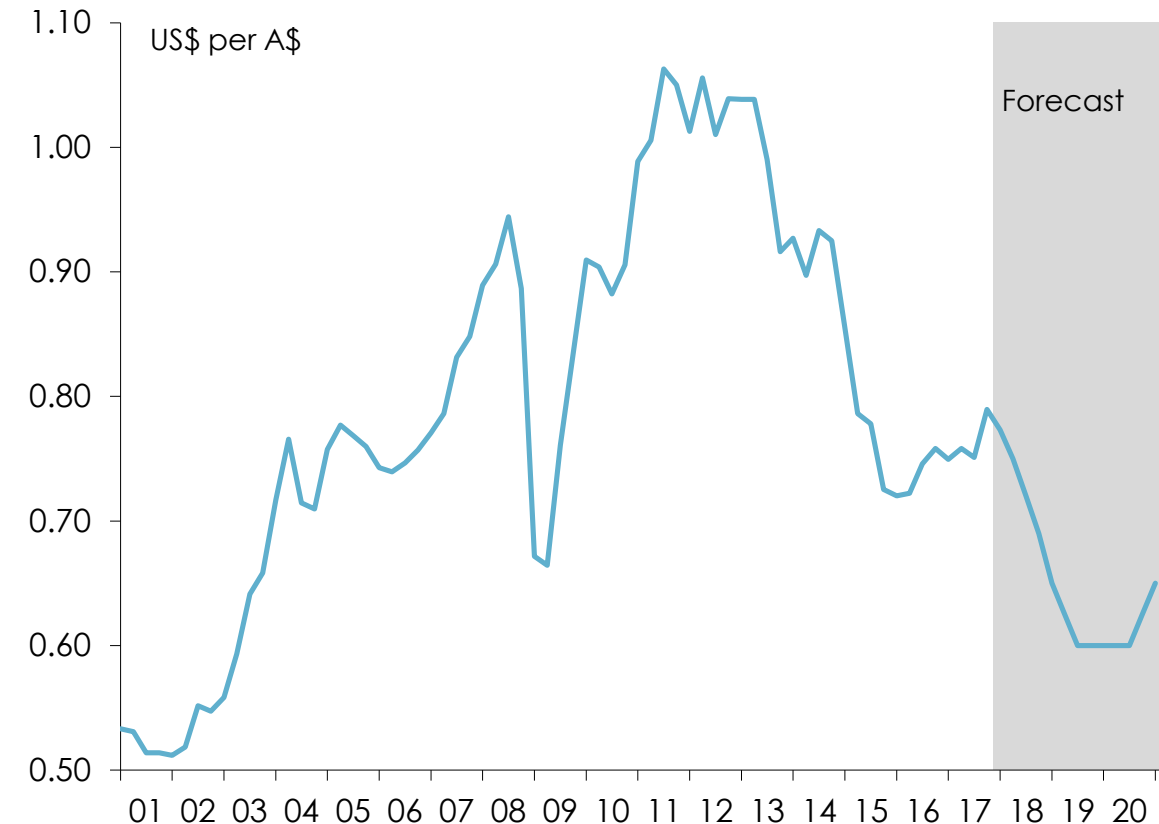
Australian interest rates probably won't start rising until late 2018 or early 2019; the A\$ will track lower until interest rates have started to rise

RBA cash rate



RBA to hold cash rate steady through 2018, then lift it 25bp every six months, reaching 2.5% by late 2020

A\$ vs US\$

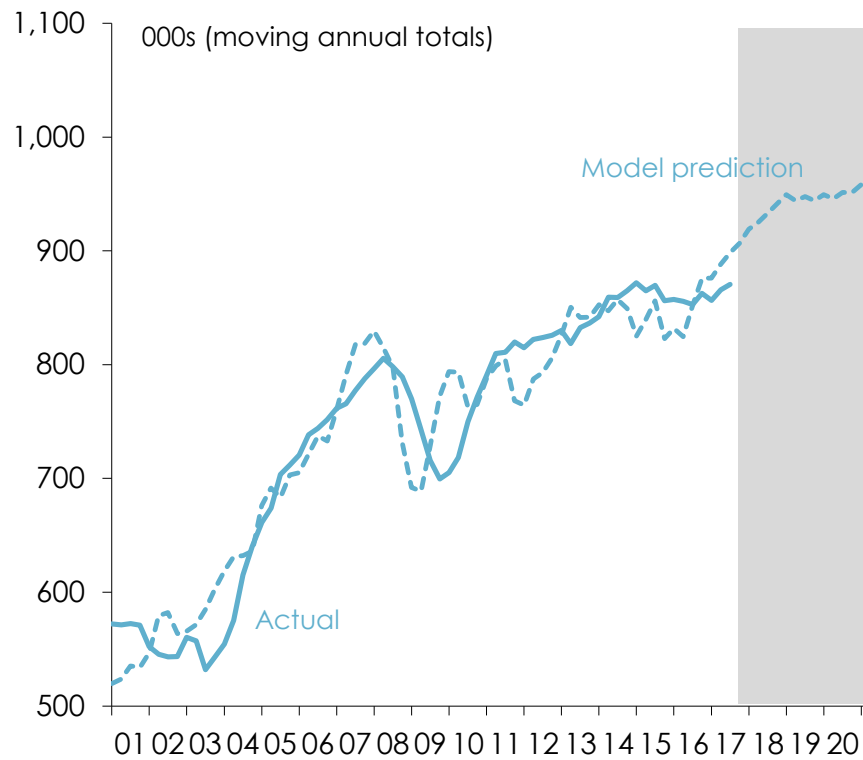


A\$ to decline to US70c by mid-2019 on stronger US\$ and lower commodity prices, picking up in 2020 after Australian interest rates begin to rise

**So what does all this mean for the outlook
for business travel?**

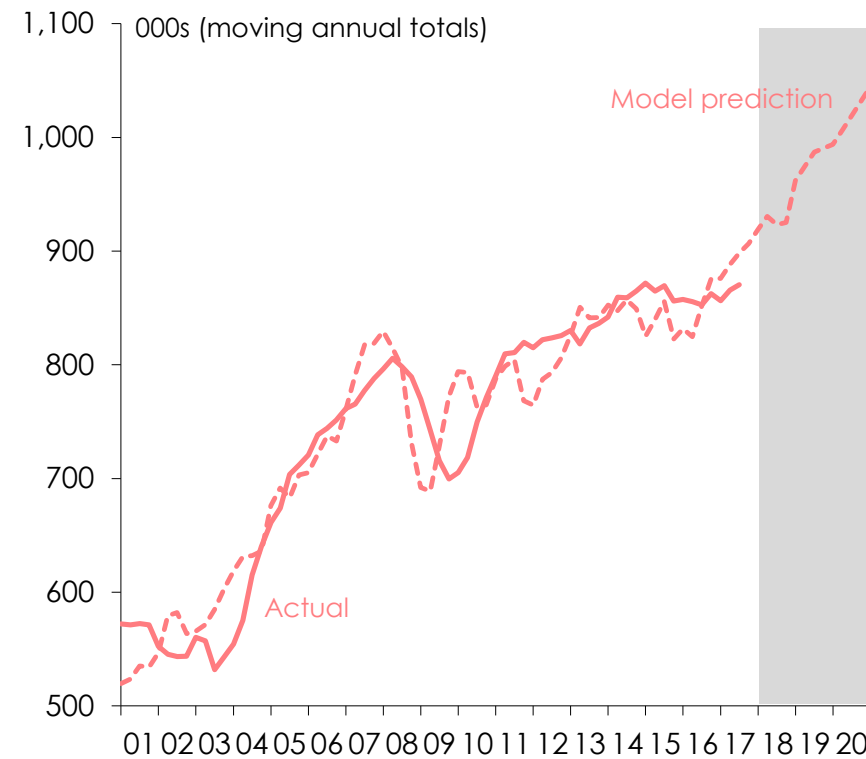
On the basis of these forecasts growth in outbound business travel will pick up – but different scenarios would see very different outcomes

Actual and forecast outbound business departures



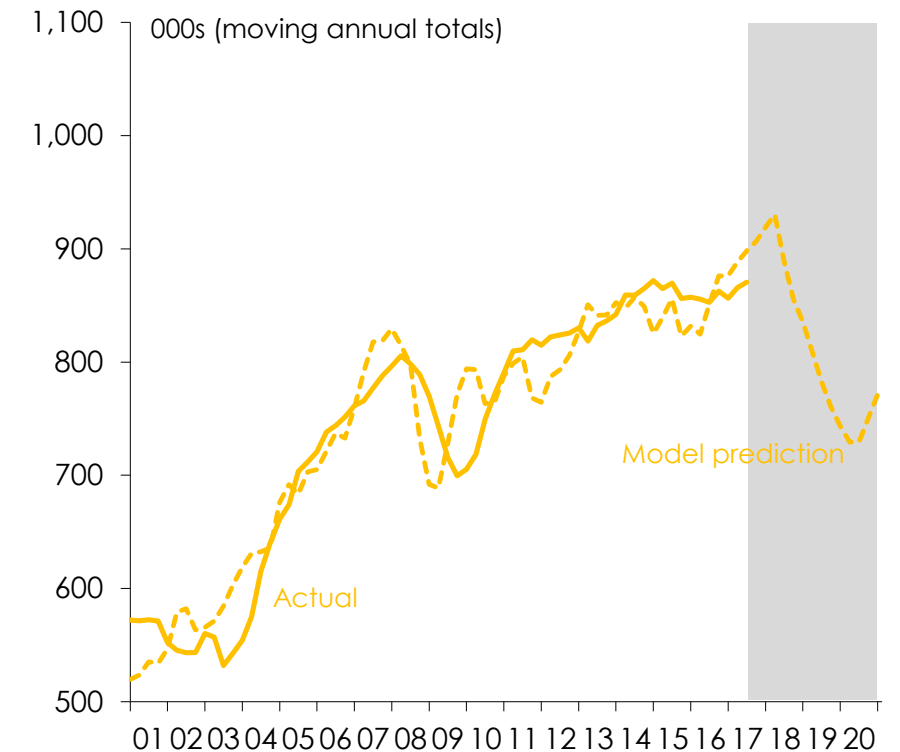
Assumes RBA forecasts for GDP growth & unemployment, cash rate and A\$ as per previous slide, ASX rises 100 pts per qtr

Alternative scenario 1



Assumes faster growth with unemployment falling to 4½%, cash rate rising sooner and further, A\$ falling less then rising to 80c, ASX up 200 pts per qtr

Alternative scenario 2



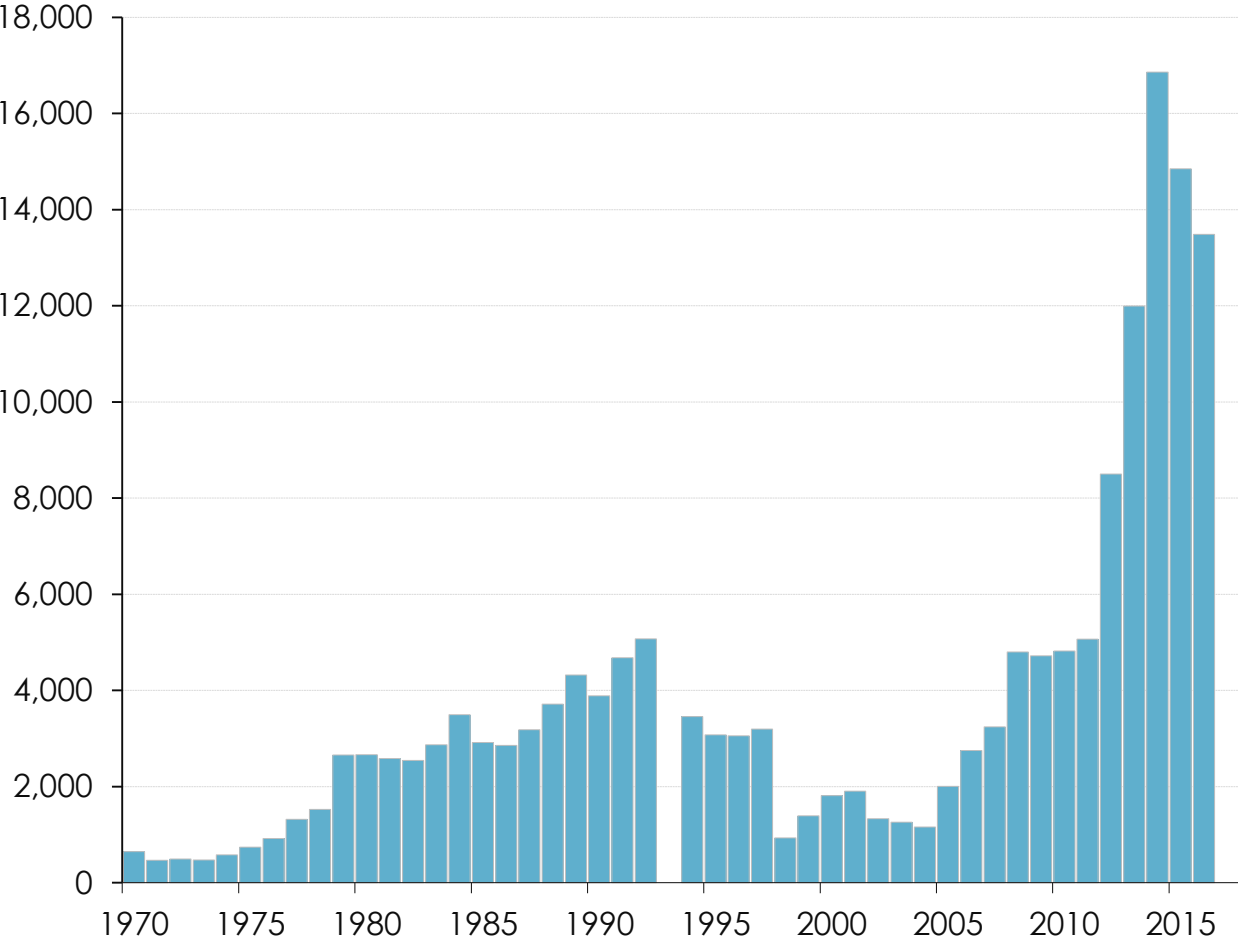
Assumes recession hits in mid-2018, unemployment rises to 7% by end 2019, RBA cuts rates to 1%, A\$ falls to 60c, ASX bottoms at 4000 in early 2020

Sources: RBA; Thomson Reuters Datastream; Corinna Economic Advisory.

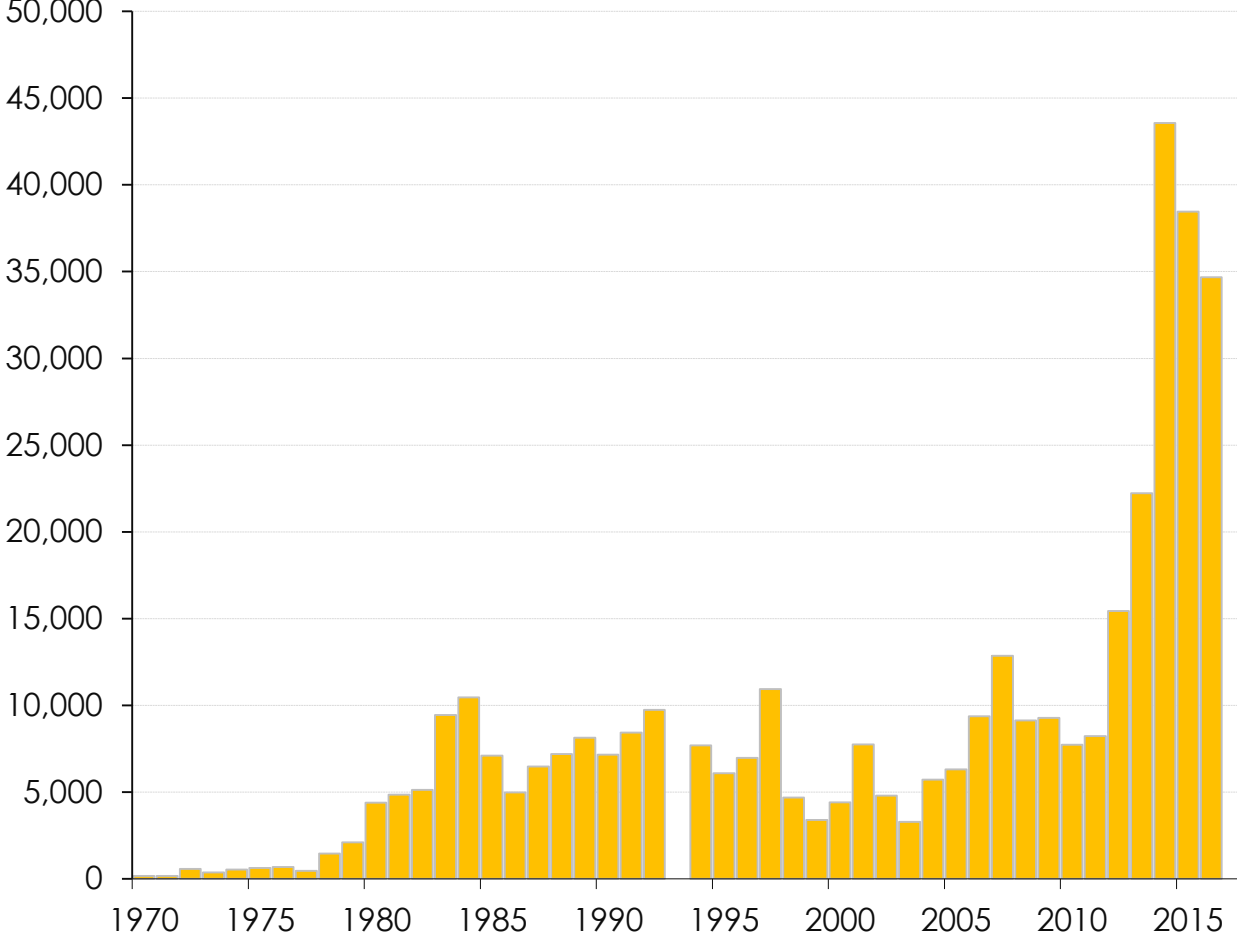
One other threat to the business travel market
– exaggerated fears of terrorism, and
excessive ‘security’ measures

The number of terrorist incidents – and the number of deaths due to terrorism – have risen significantly in recent years

Number of terrorist incidents – world total 1970-2016



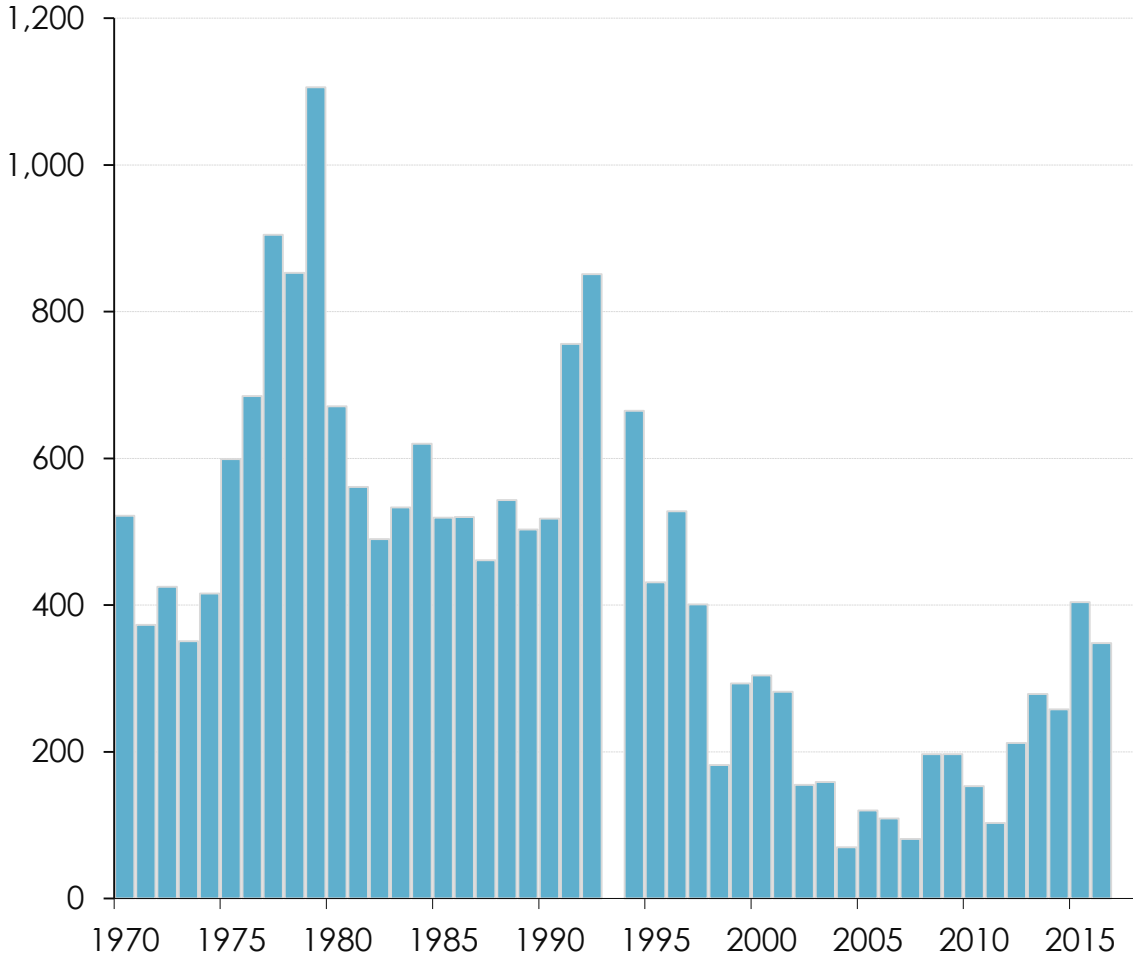
Number of deaths from terrorist incidents – world total, 1970-2016



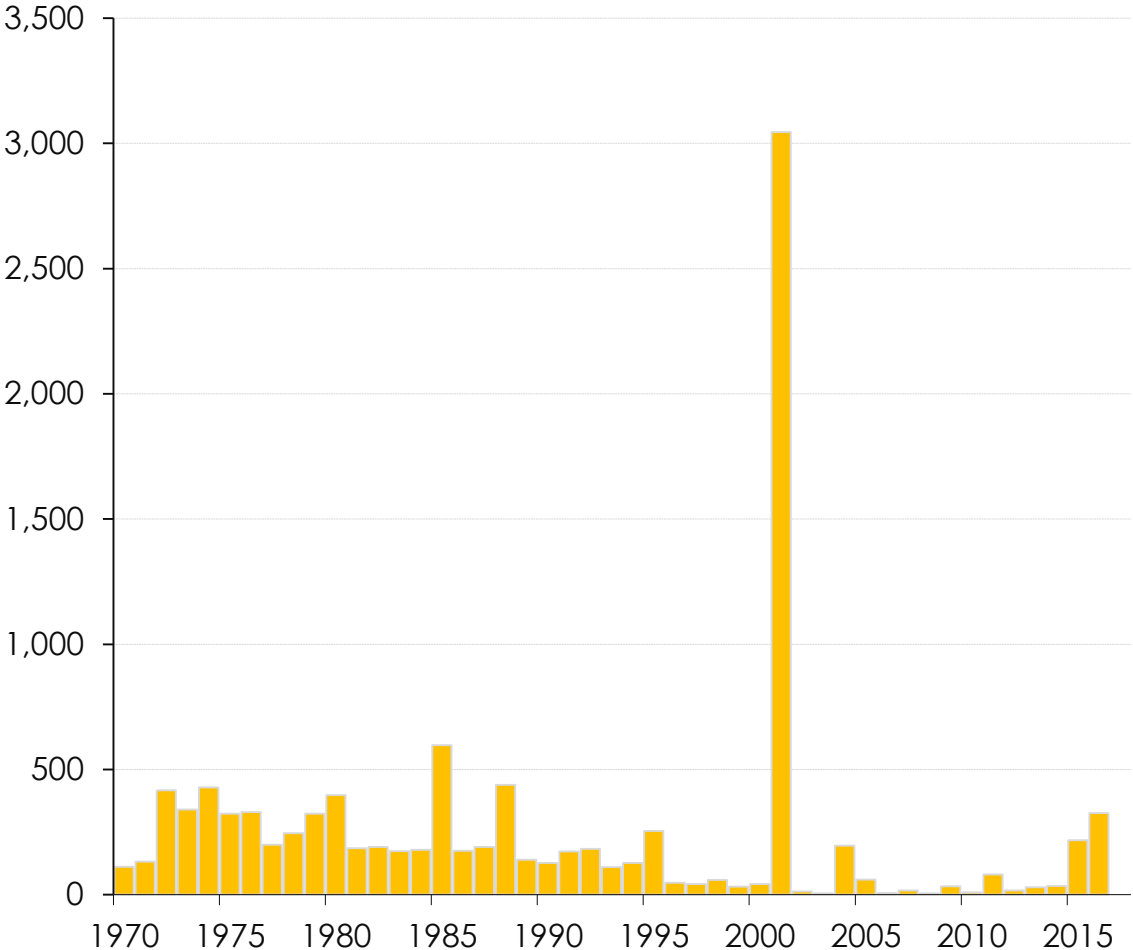
Note: Data for 1993 not available.
Source: Global Terrorism Database, University of Maryland.

However in 'Western' countries the number of incidents, and deaths resulting from terrorism, remains less than in the 1970s or 1980s

Number of terrorist incidents in 'western' countries, 1970-2016



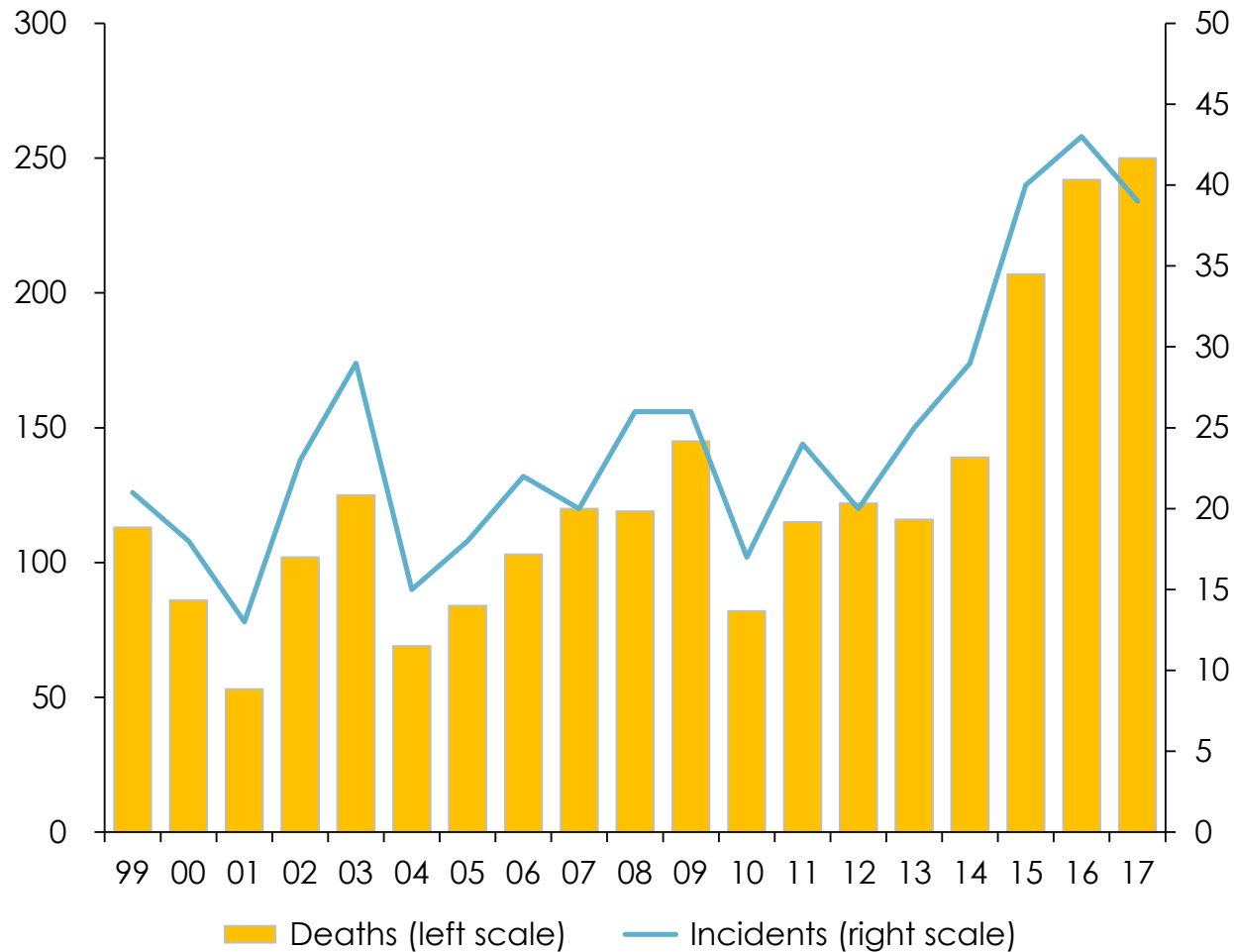
Number of deaths from terrorist incidents in 'western' countries, 1970-2016



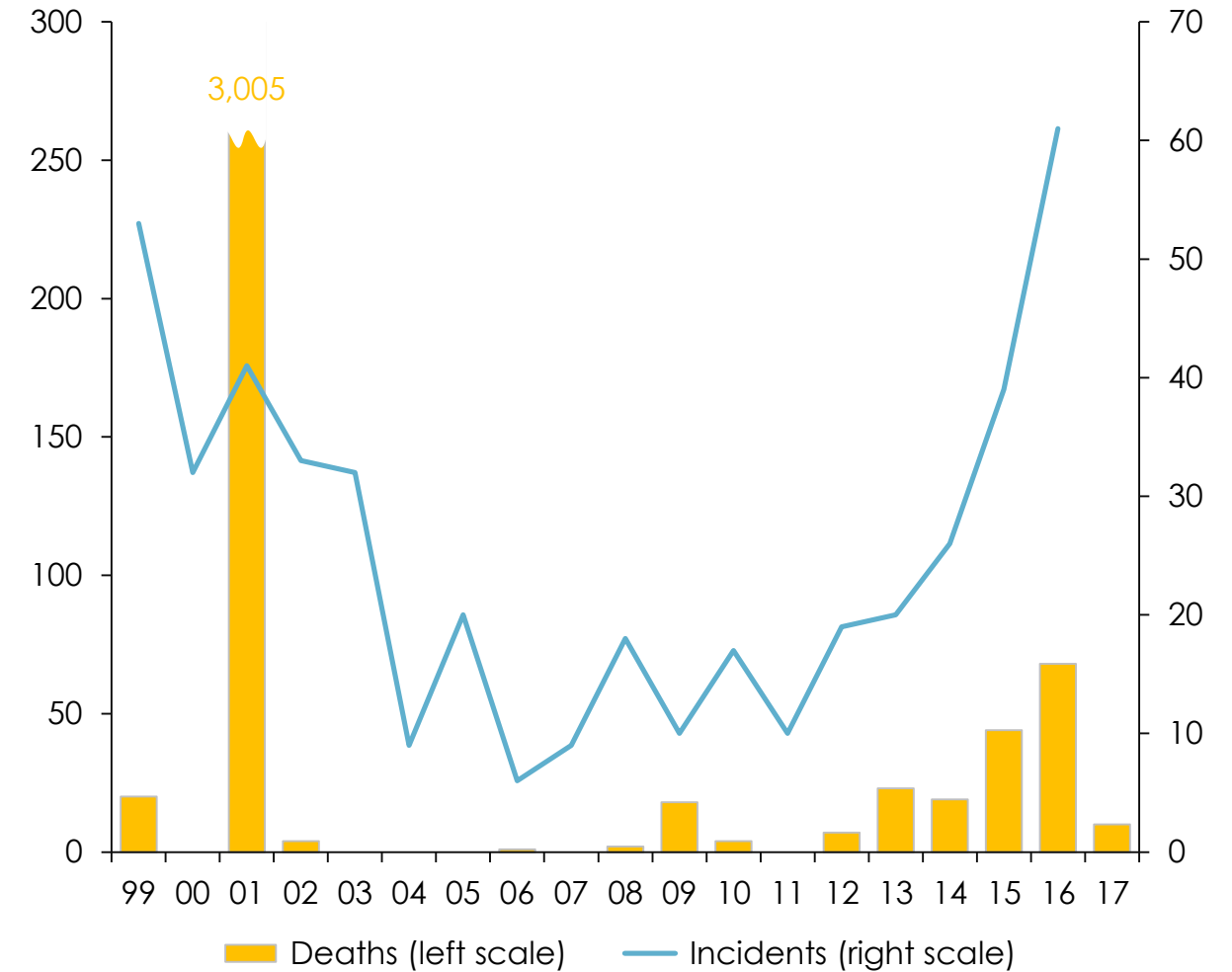
Note: 'Western' countries comprise Western Europe, the United States, Canada, Japan, Korea, Australia and New Zealand. Data for 1993 not available.
Source: Global Terrorism Database, University of Maryland.

So far this century, Americans are almost six times as likely to have been killed by another American with a gun as by a terrorist

Mass shootings in the United States



Terrorist incidents in the United States



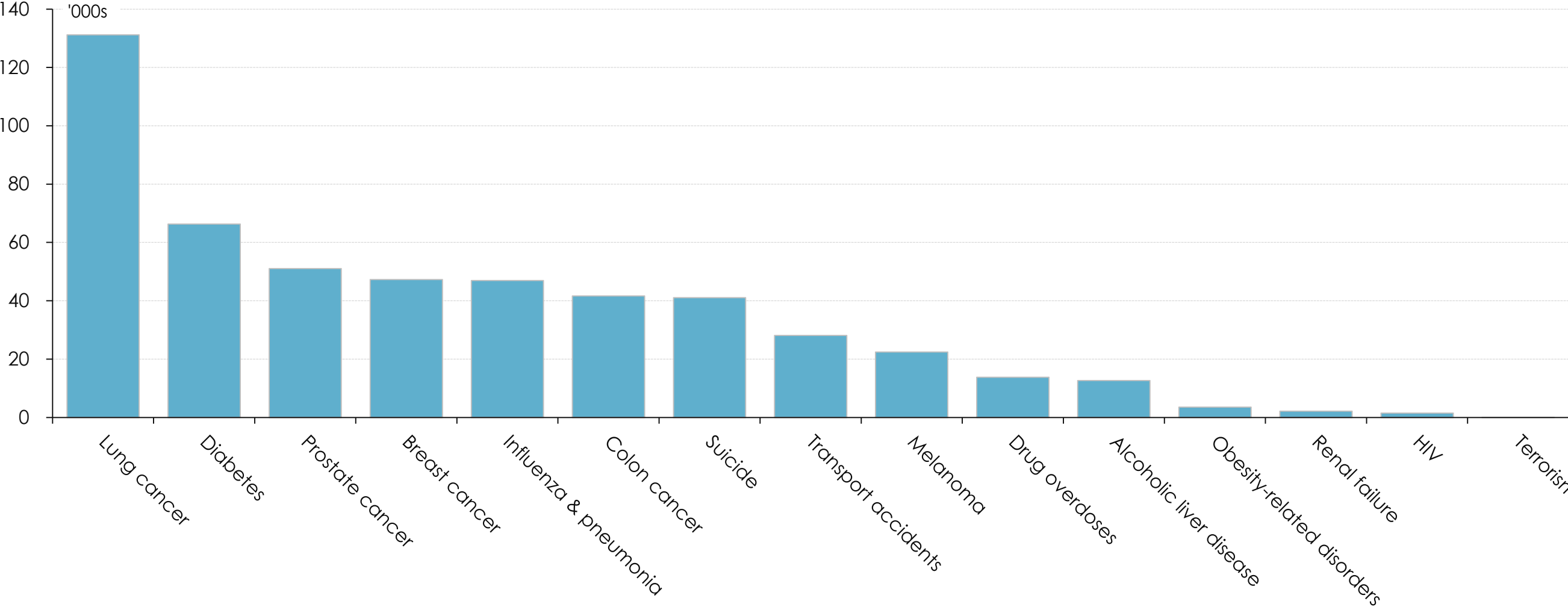
Note: 'Mass shootings' are shootings entailing the deaths of four or more people (not including the shooter).

Sources: William Krause & Daniel Richardson, *Mass Murder with Firearms: Incidents and Victims 1999-2013*, US Congressional Research Service, July 2015;

www.massshootingtracker.org; Global Terrorism Database, University of Maryland.

Australians are far more likely to die of a wide range of preventable causes than as a result of terrorism

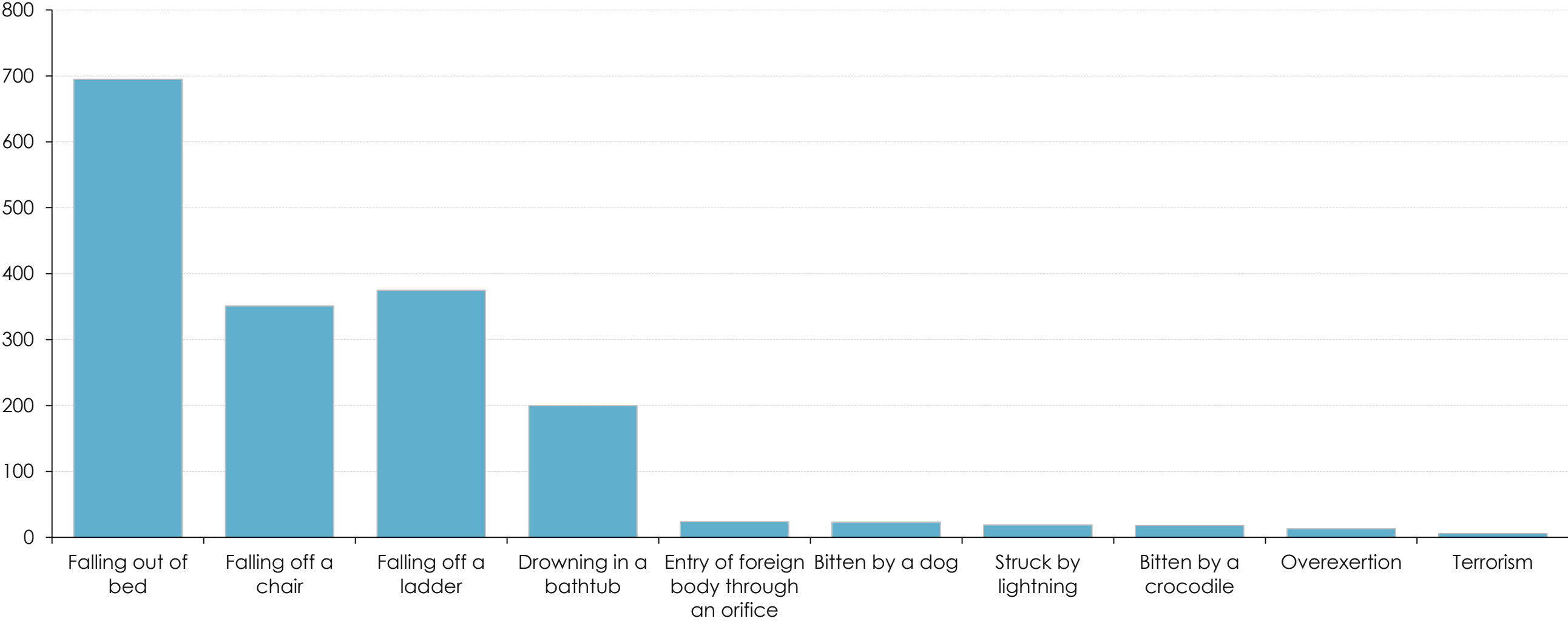
Selected causes of death, Australia, 2000-2016



Source: Australian Bureau of Statistics, Causes of Death, Australia (catalogue no 3303.0).

Australians are more likely to die from falls, drowning in their bathtubs, being bitten by various creatures, or lightning strikes, than from terrorism

Some other selected causes of death, Australia, 2000-2016



Source: Australian Bureau of Statistics, *Causes of Death, Australia* (catalogue no 3303.0).

Security theatre

