

THE TASMANIAN ECONOMY AND THE PATH TO RECOVERY

PRESENTATION TO THE TASMANIAN GOVERNANCE FORUM

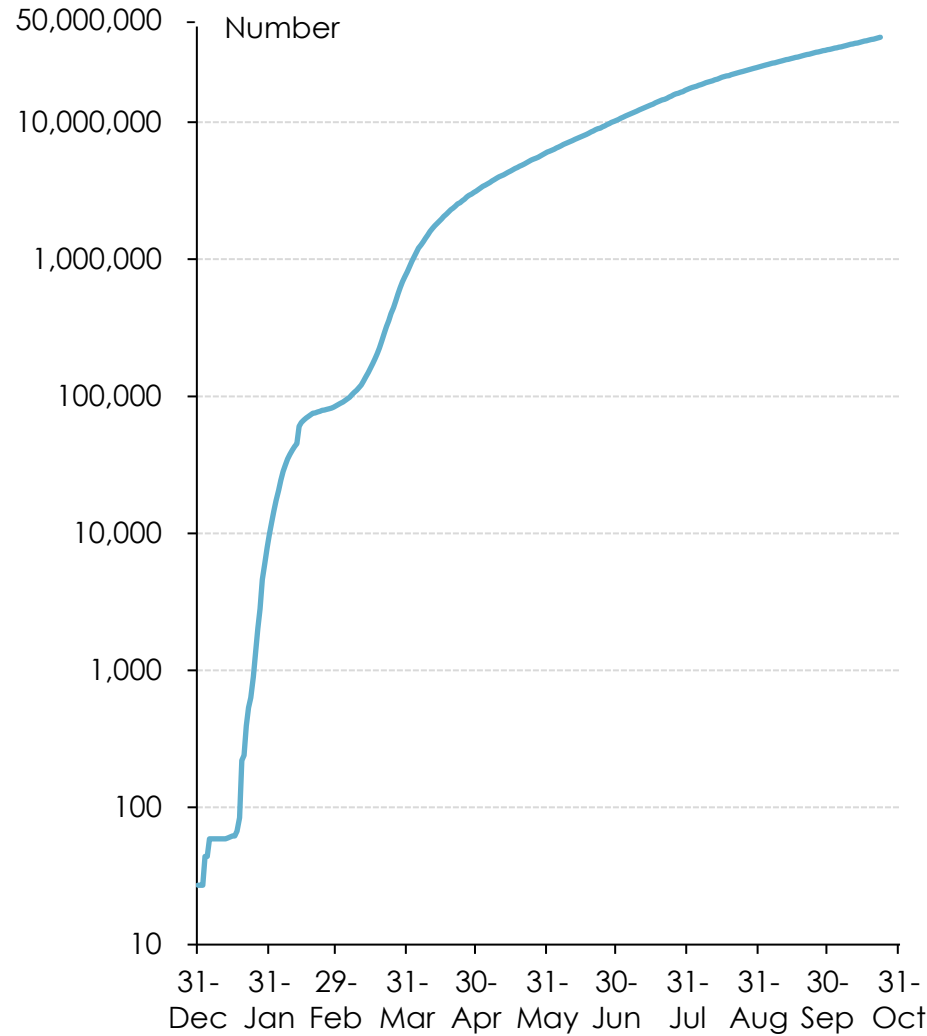
CROWNE PLAZA HOTEL, HOBART
26TH OCTOBER 2020

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY PTY LTD

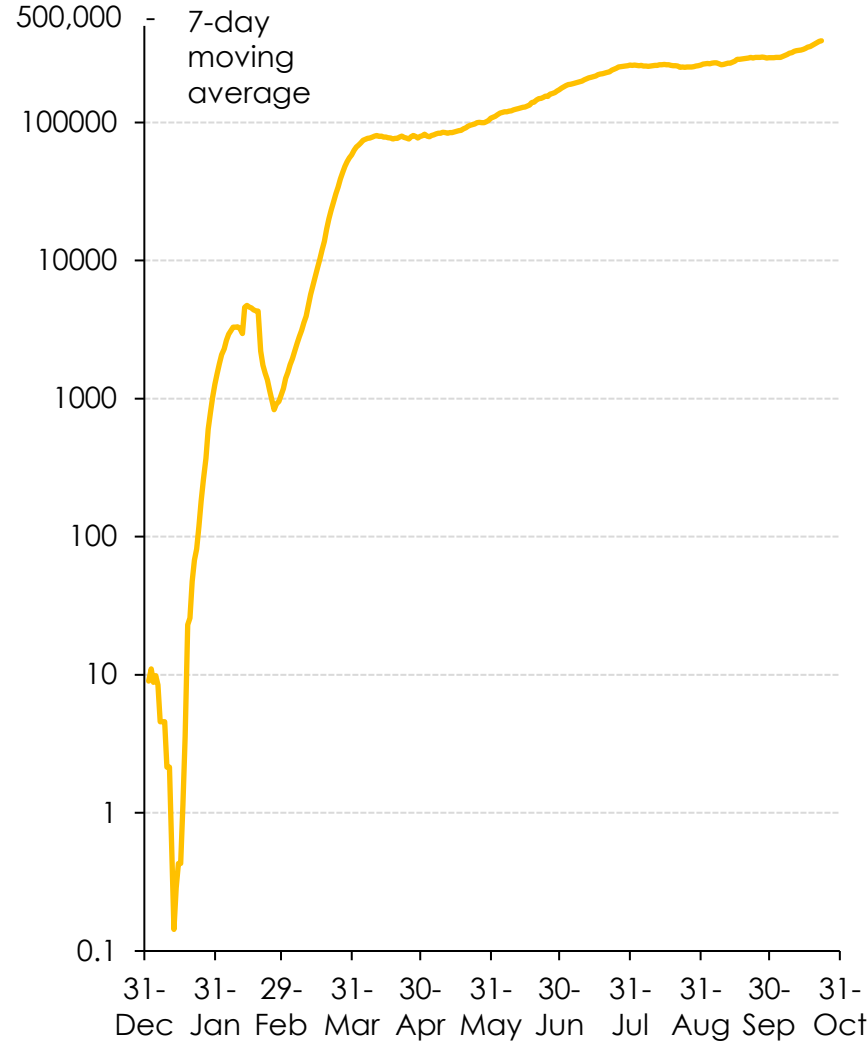
The virus

Over the past week there've been almost 2³/₄mn new cases (a record), taking the cumulative total to 41³/₄mn – although the fatality rate is declining

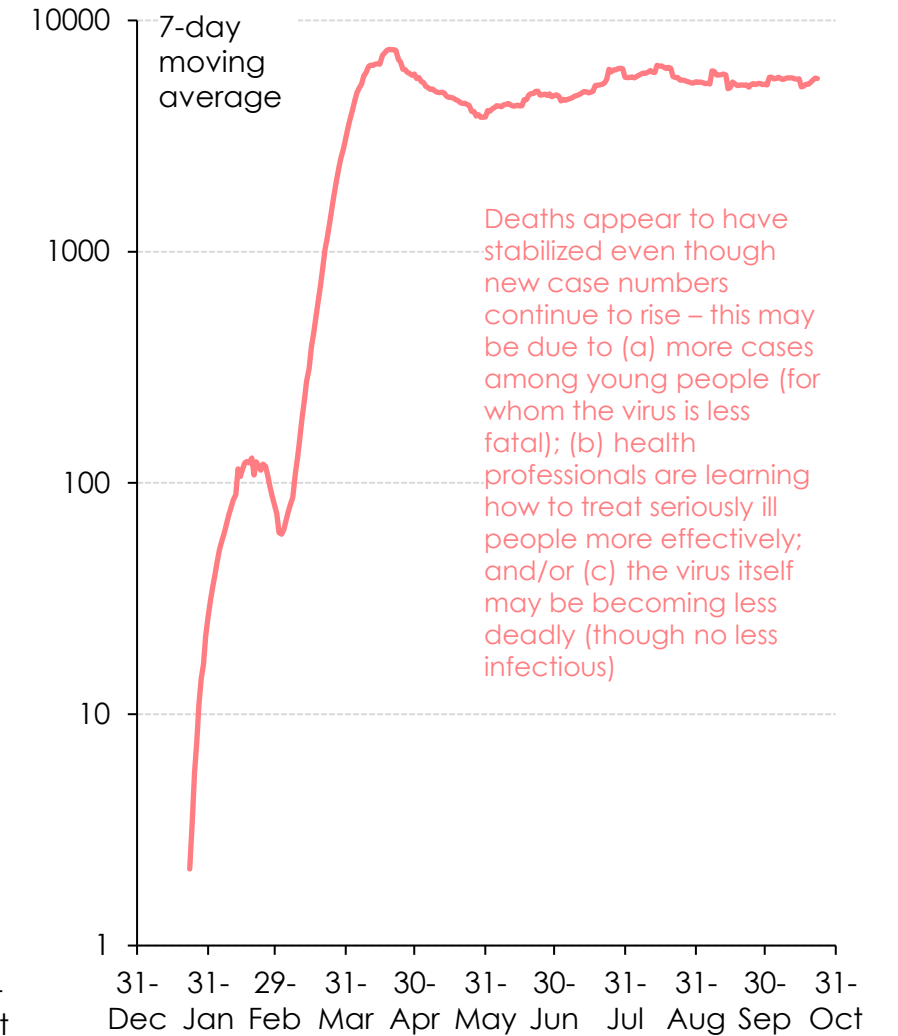
Cumulative confirmed cases – global total



New confirmed cases – global total



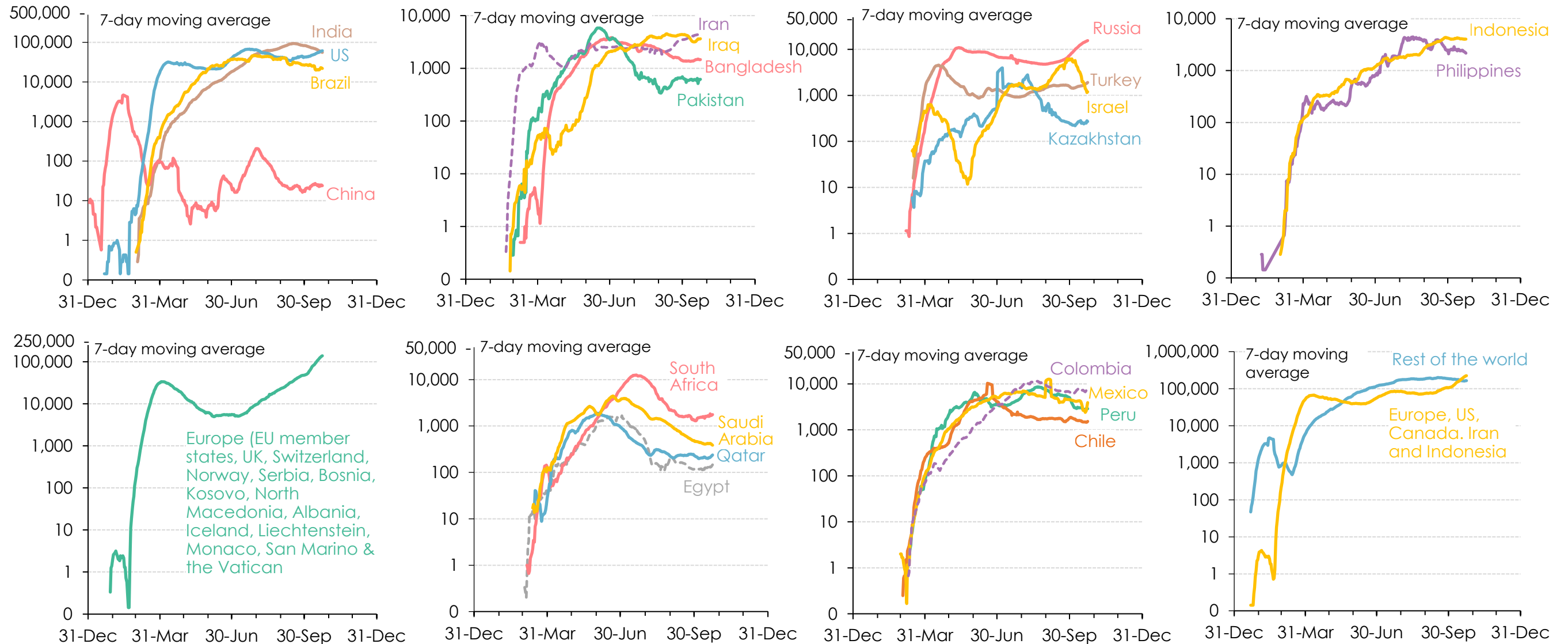
New deaths – global total



Note: All charts are on logarithmic scales. Data up to 23rd October. Source: University of Oxford, [Our World in Data](#).

35% of new cases are now in Europe, 16% in the US and 6% in Russia, Iran & Indonesia: another 14% are in India & 5½% in Brazil, but they're now falling

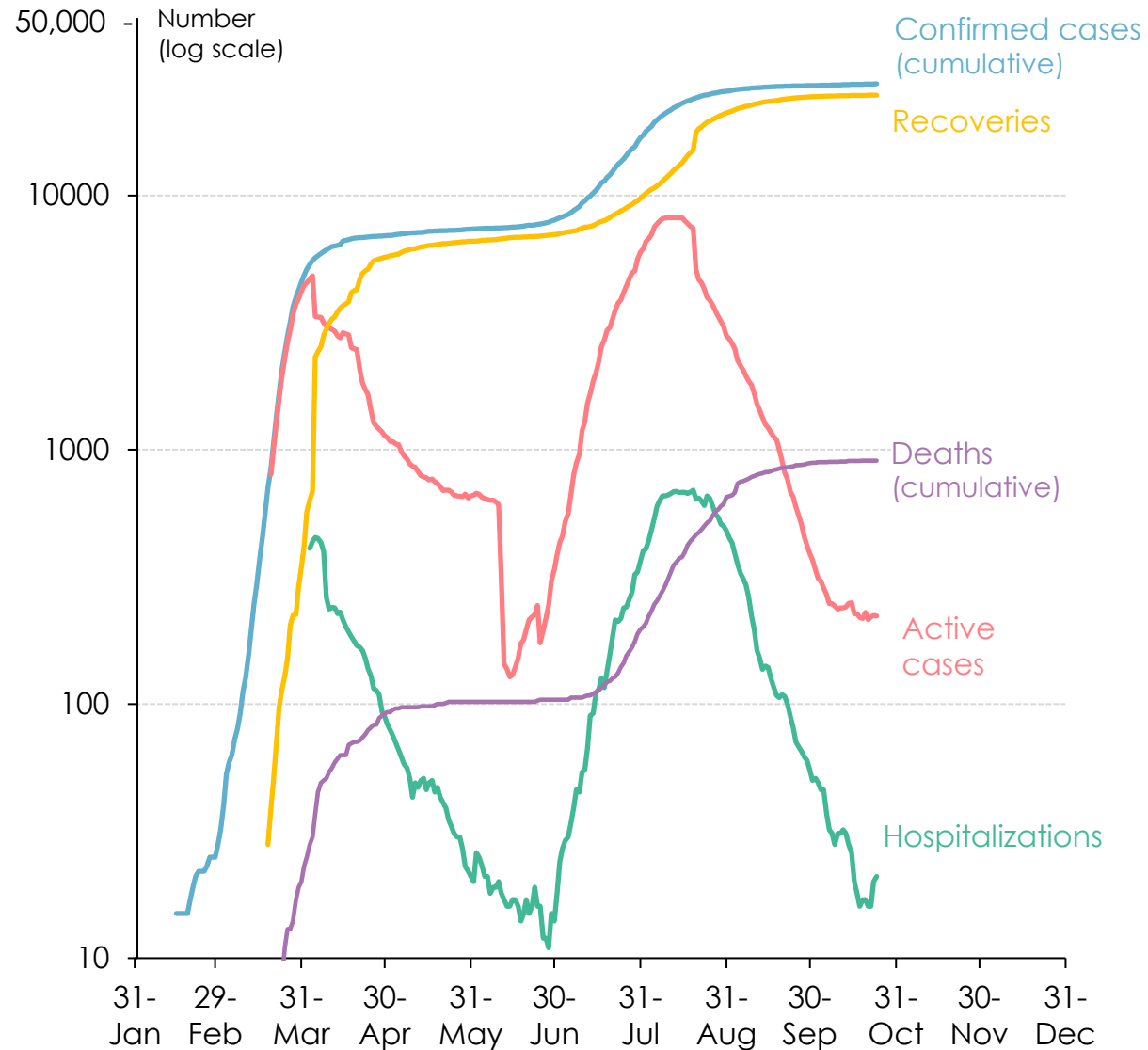
Daily new cases – selected countries with large populations and/or rapid growth in cases



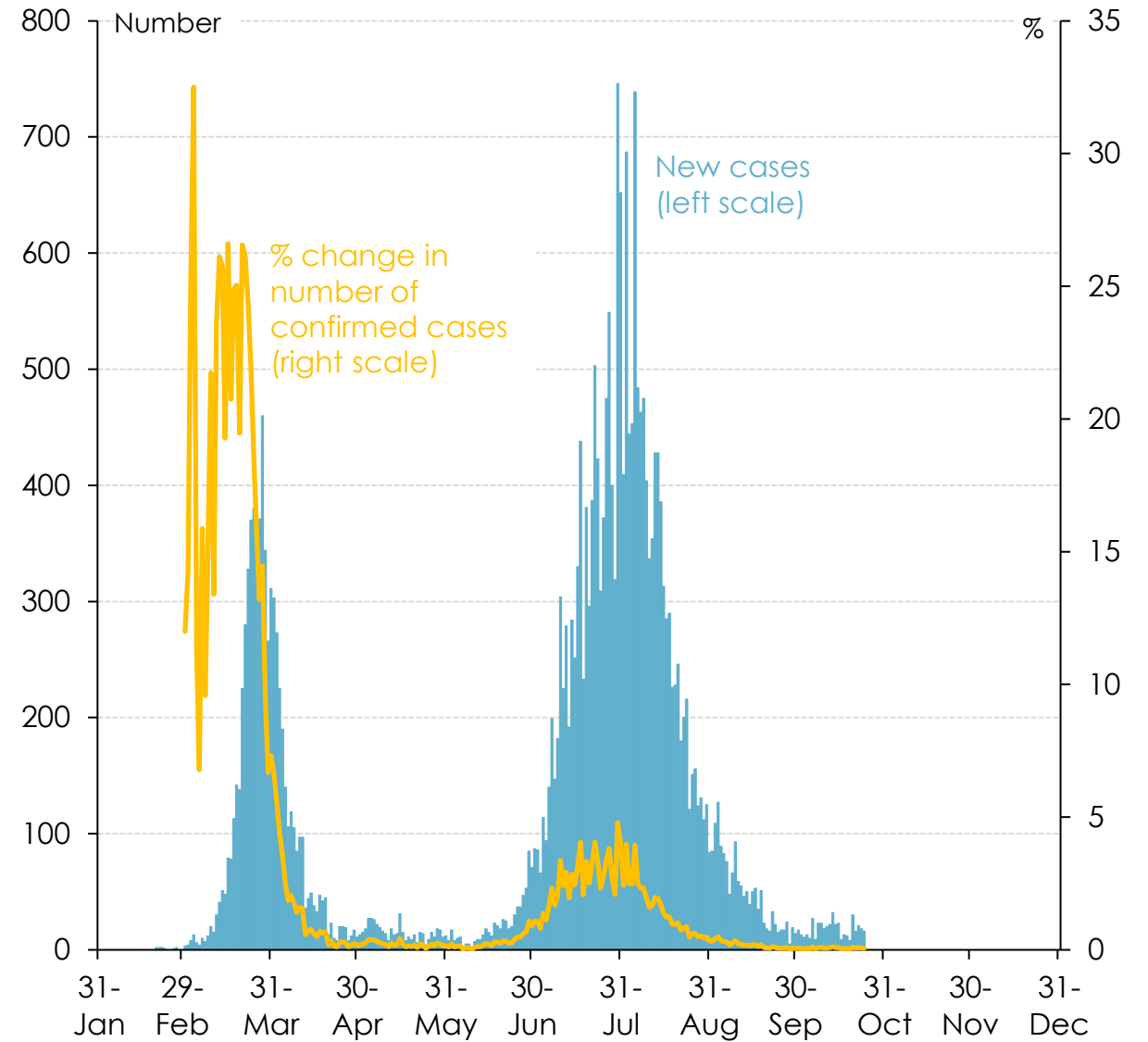
Note: All charts are on logarithmic scales. Data up to 23rd October. Source: University of Oxford, [Our World in Data](#); Corinna.

Australia's 'second wave' of infections is now over

Cases, recoveries, hospitalizations and deaths



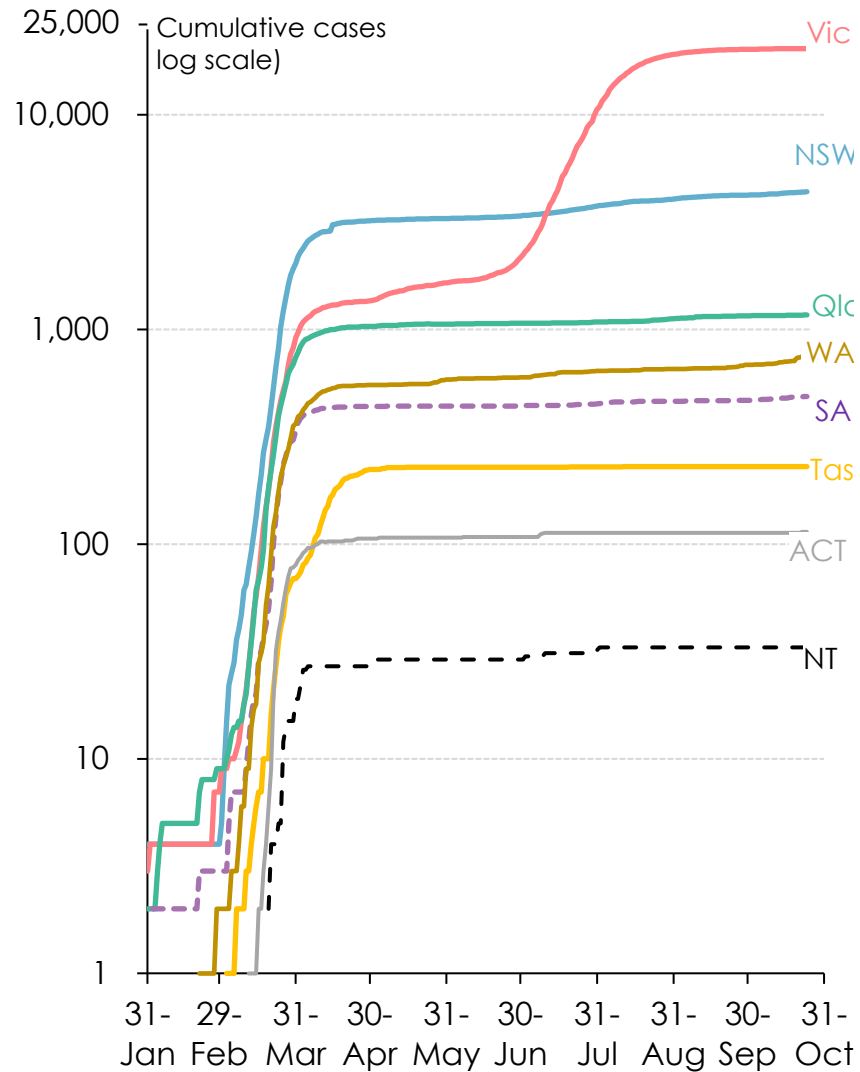
New cases



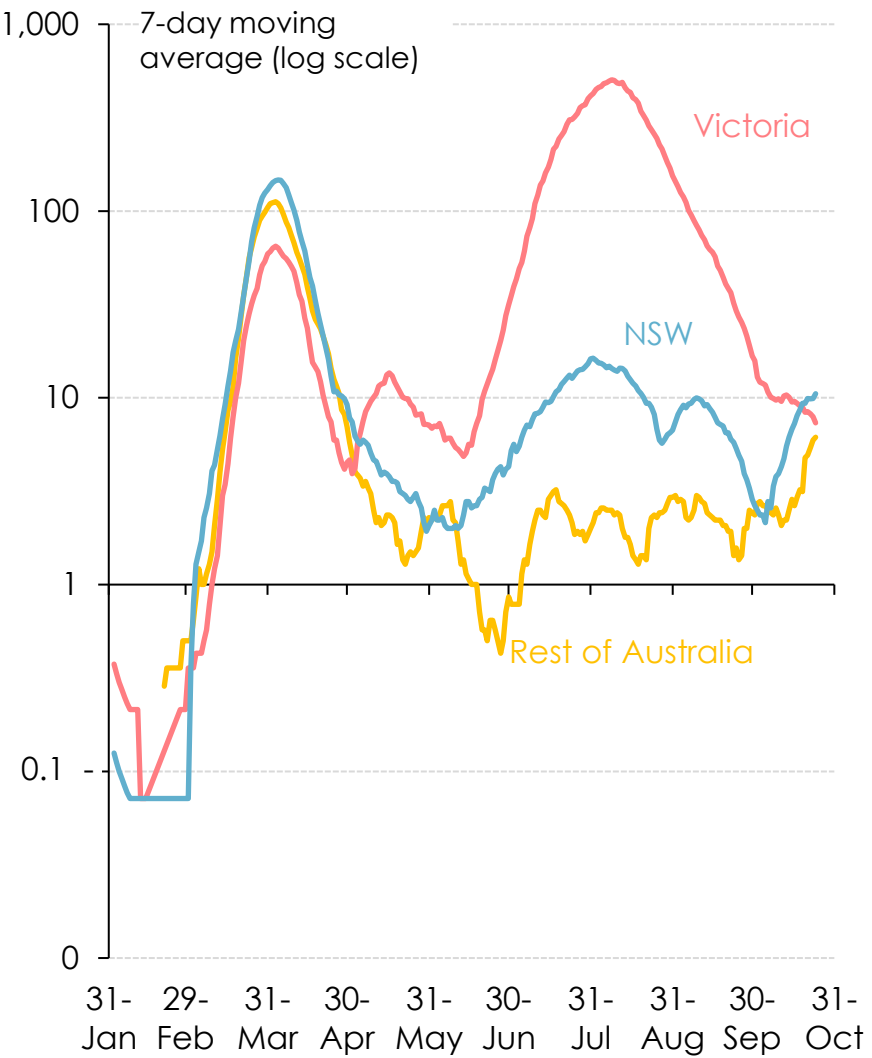
Note: Data up to 24th October. Source: covid19data.com.au.

Victoria's new cases have declined to an average of 7 a day, while NSW's have risen to 11, and WA's have also crept higher

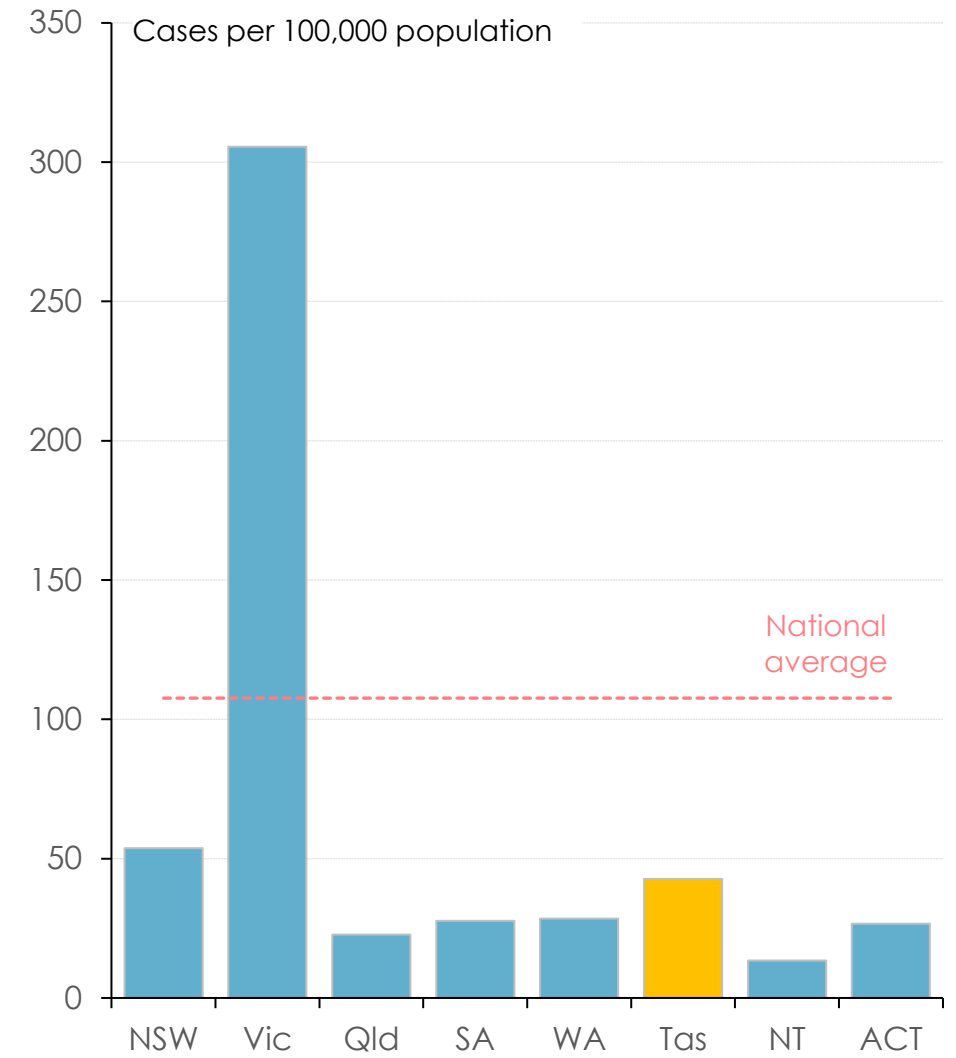
Cumulative cases, by State



New cases



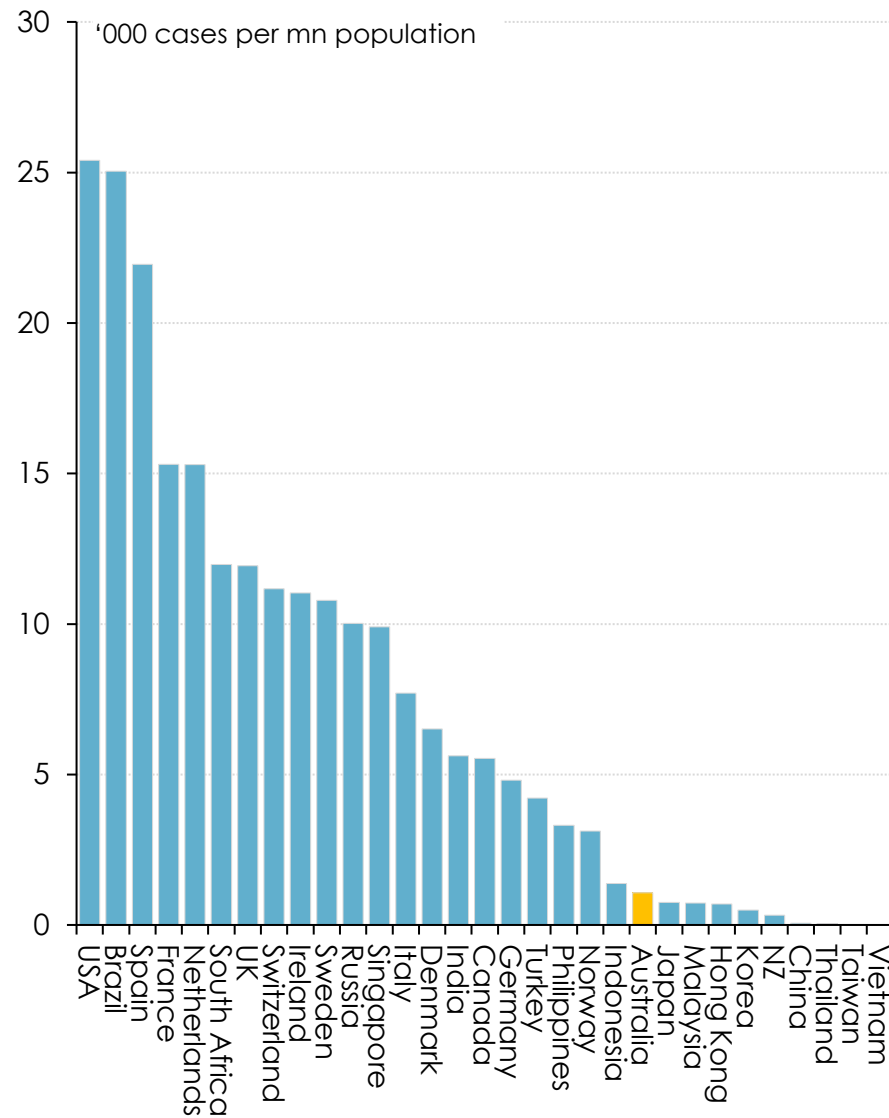
Cases per 100,000 population



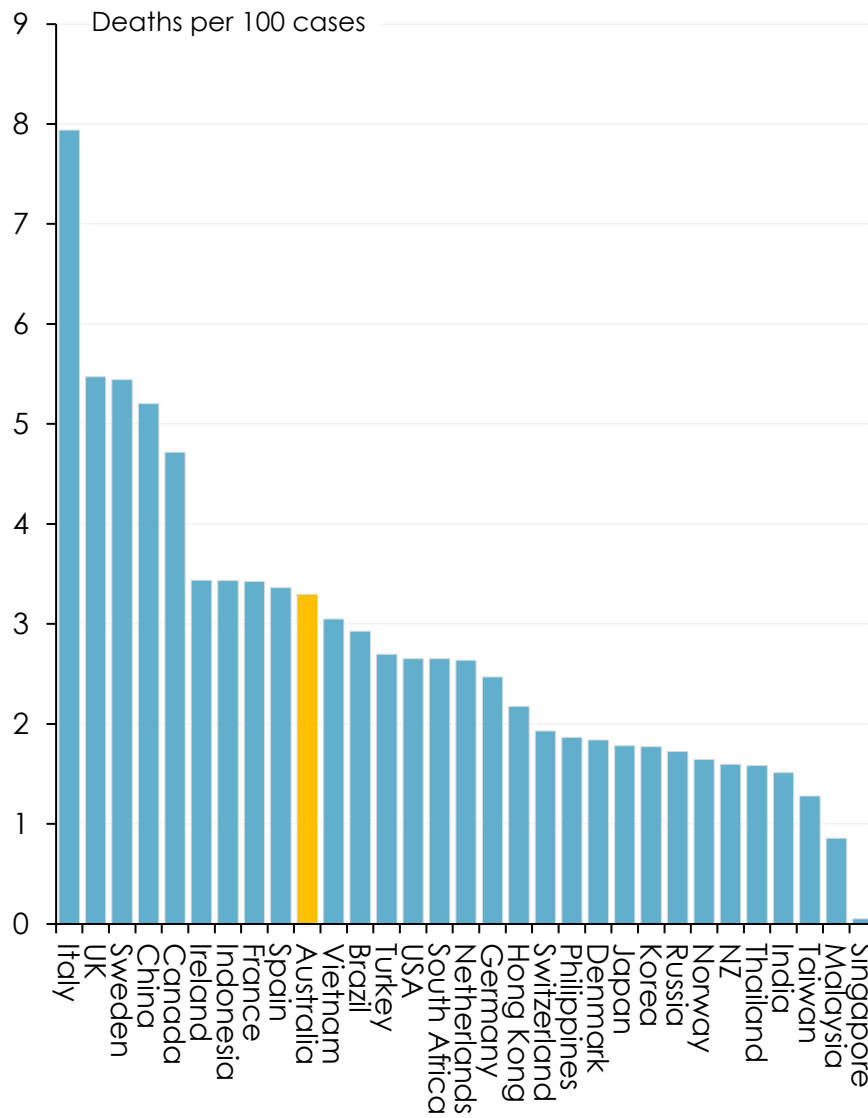
Note: Data up to 24th October. Source : covid19data.com.au.

Australia's infection and death rates remain, along with NZ's and most East Asian countries', low by international standards

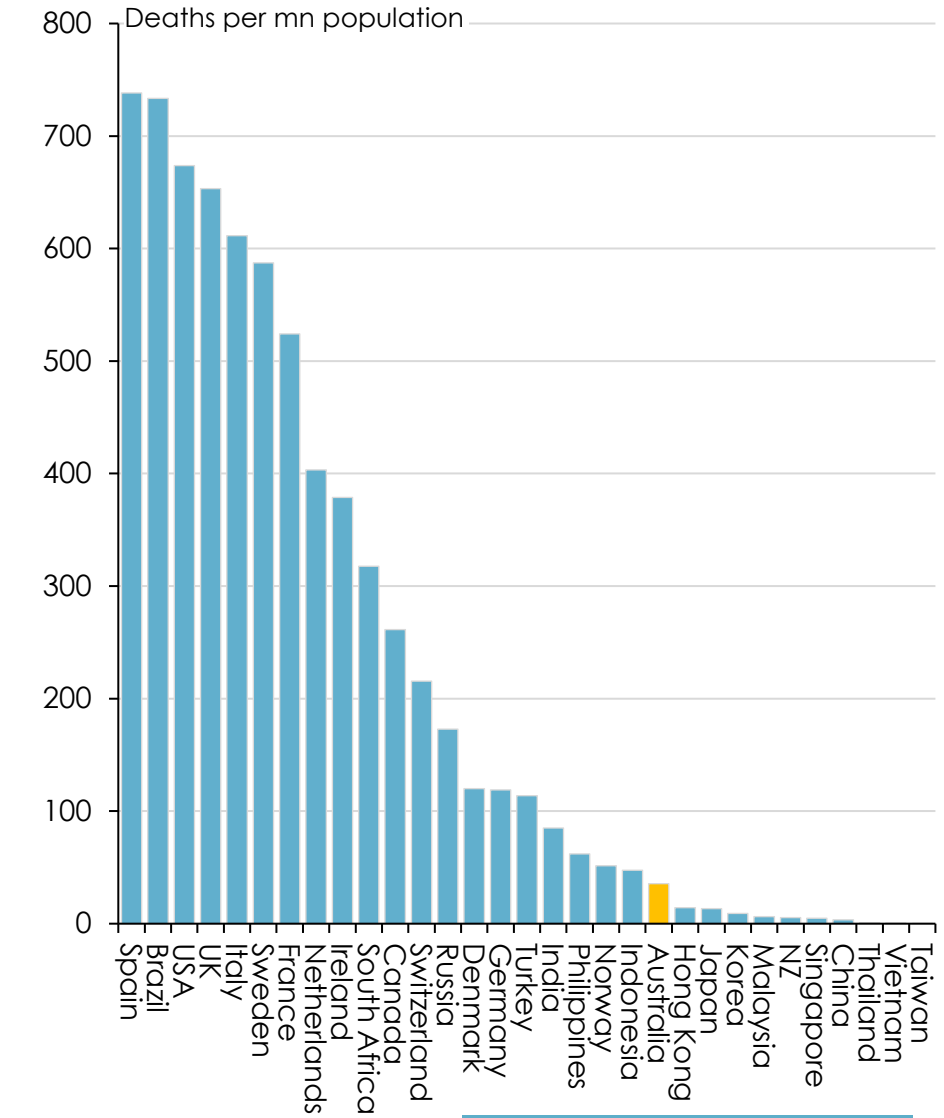
Apparent infection rate



Apparent fatality rate



Death rate

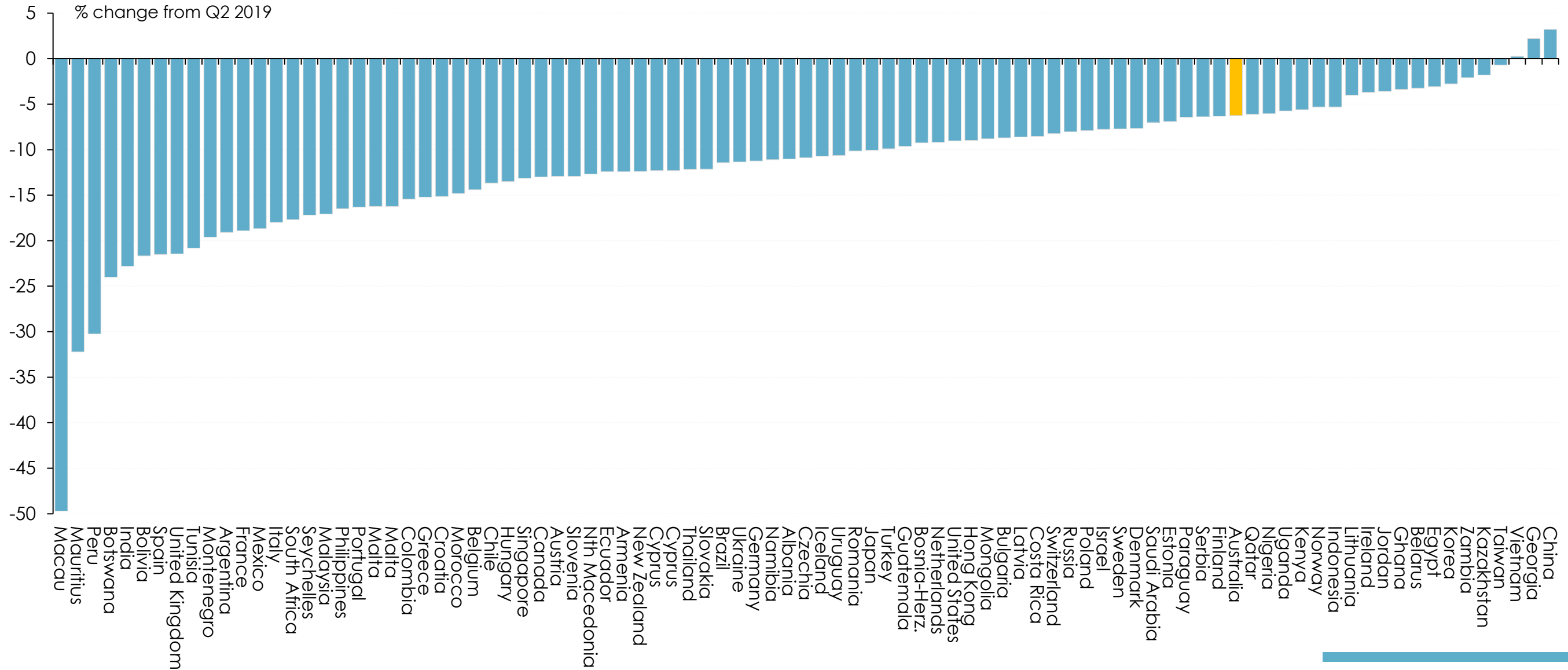


Note: Data up 23rd October. Source: University of Oxford, [Our World in Data](#); Corinna.

The world economy

Of the 91 economies which have reported Q2 GDP data so far, 9 have reported contractions of more than 20% and only 3 have reported growth

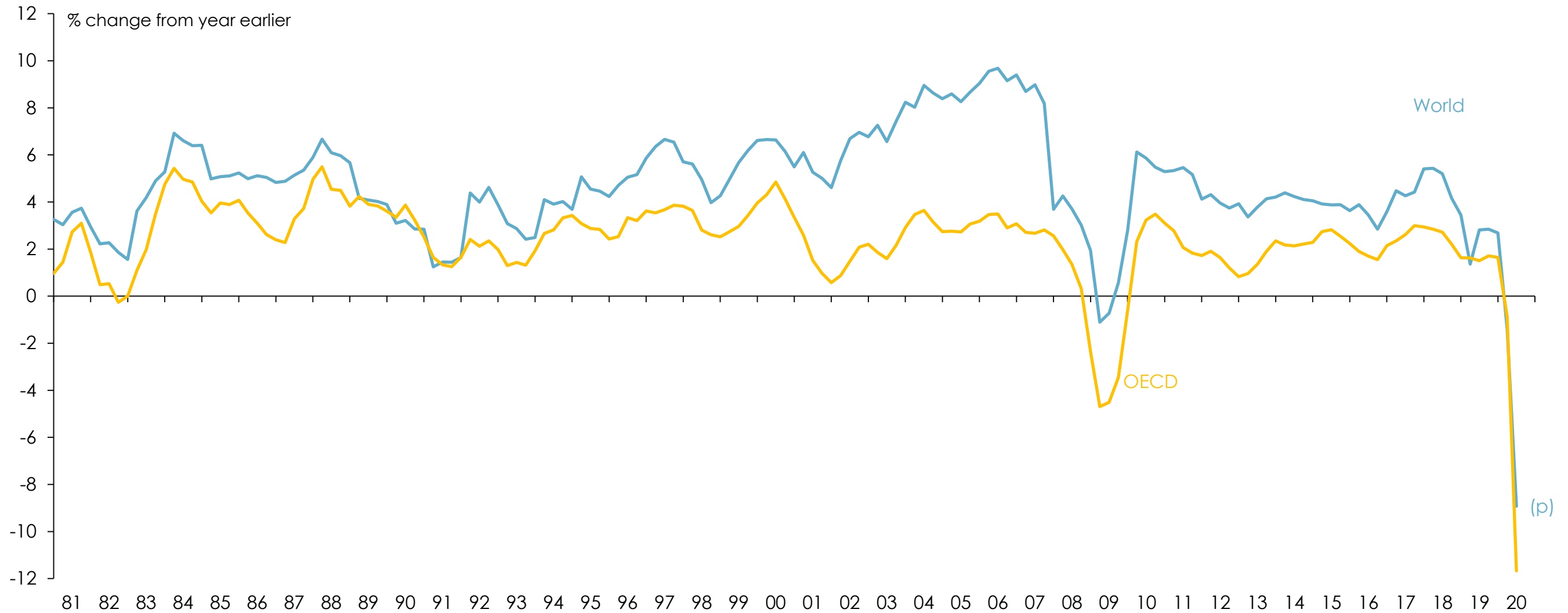
Real GDP growth over the year to Q2 2020



Sources: national statistical agencies and central banks; Refinitiv Datastream; Corinna.

The world economy experienced has contracted by about 9%, and the OECD area economy by 11³/₄%, over the year to Q2

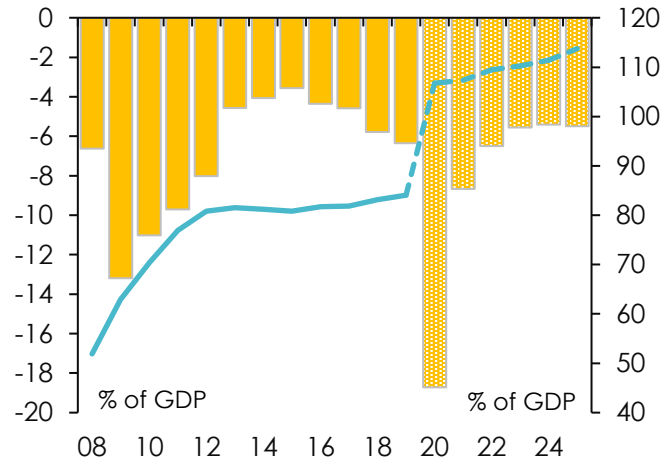
World and OECD area real GDP growth



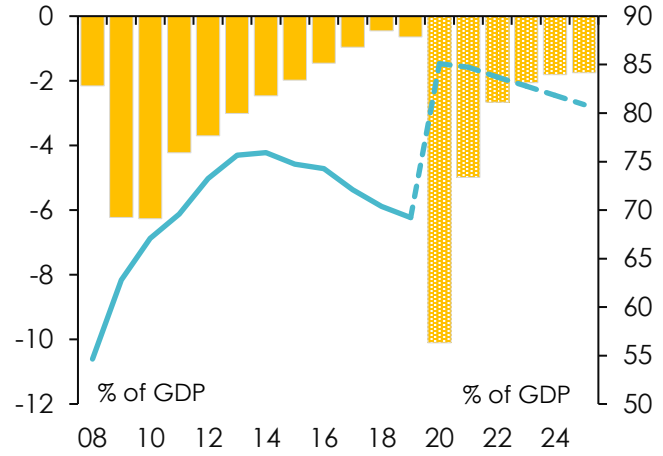
Note: Estimates of global GDP growth compiled by Corinna using data for 100 countries accounting for 94% of 2019 world GDP as measured by the IMF, weighted in accordance with each country's share of global GDP at purchasing power parities in 2019. ; excludes constituents of the former USSR before 1993, the former Czechoslovakia before 1995, and the former Yugoslavia before 1998. (p) Estimate for Q2 is a preliminary estimate based on published results for the 91 countries shown in the [previous slide](#). Sources: national statistical agencies and central banks; Eurostat; [OECD](#); IMF; Corinna.

Every government is doing more by way of fiscal stimulus than during the financial crisis – and the US, Canada and the UK are doing more than most

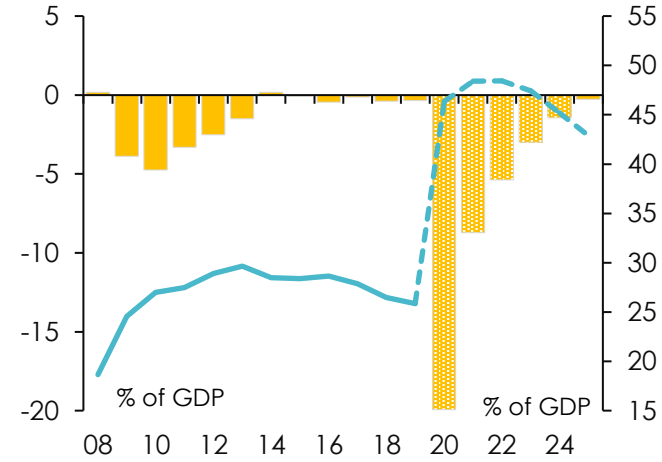
United States



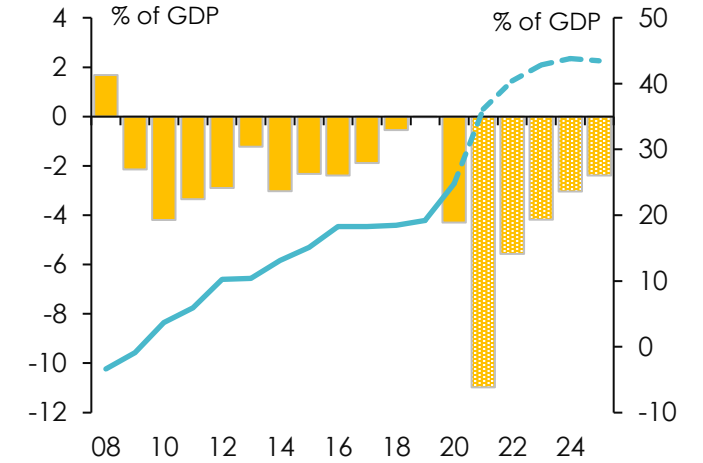
Euro area



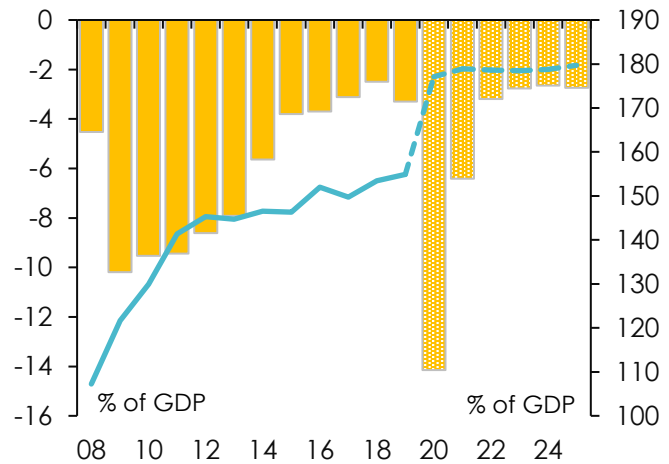
Canada



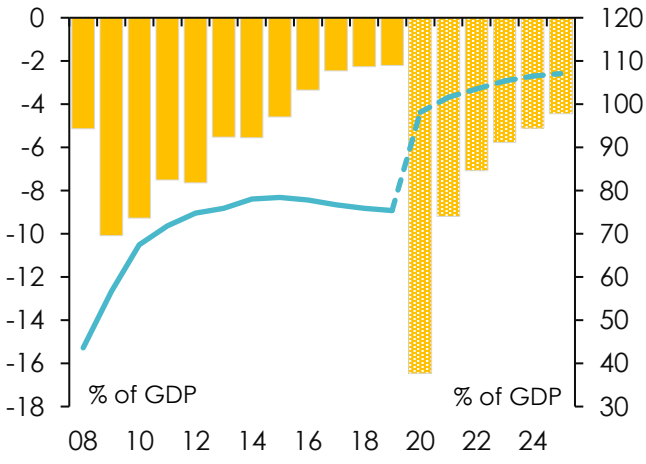
Australia



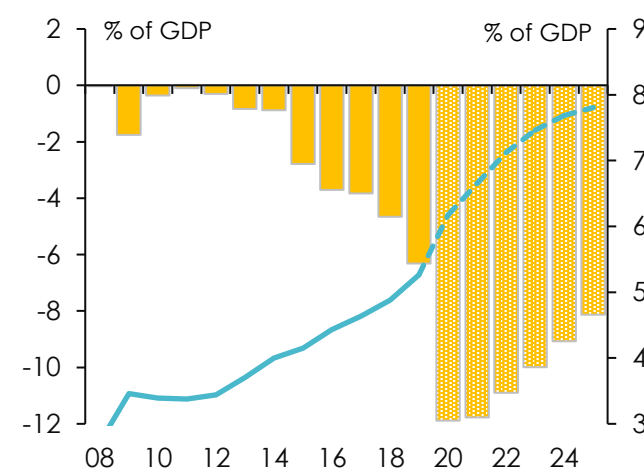
Japan



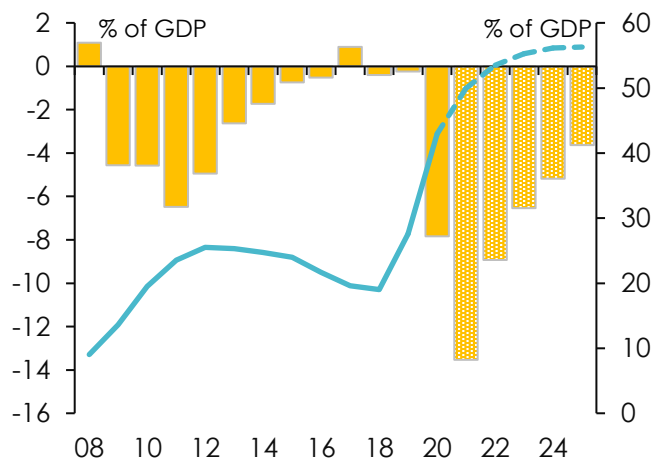
United Kingdom



China



New Zealand



General government overall fiscal balance (left scale)

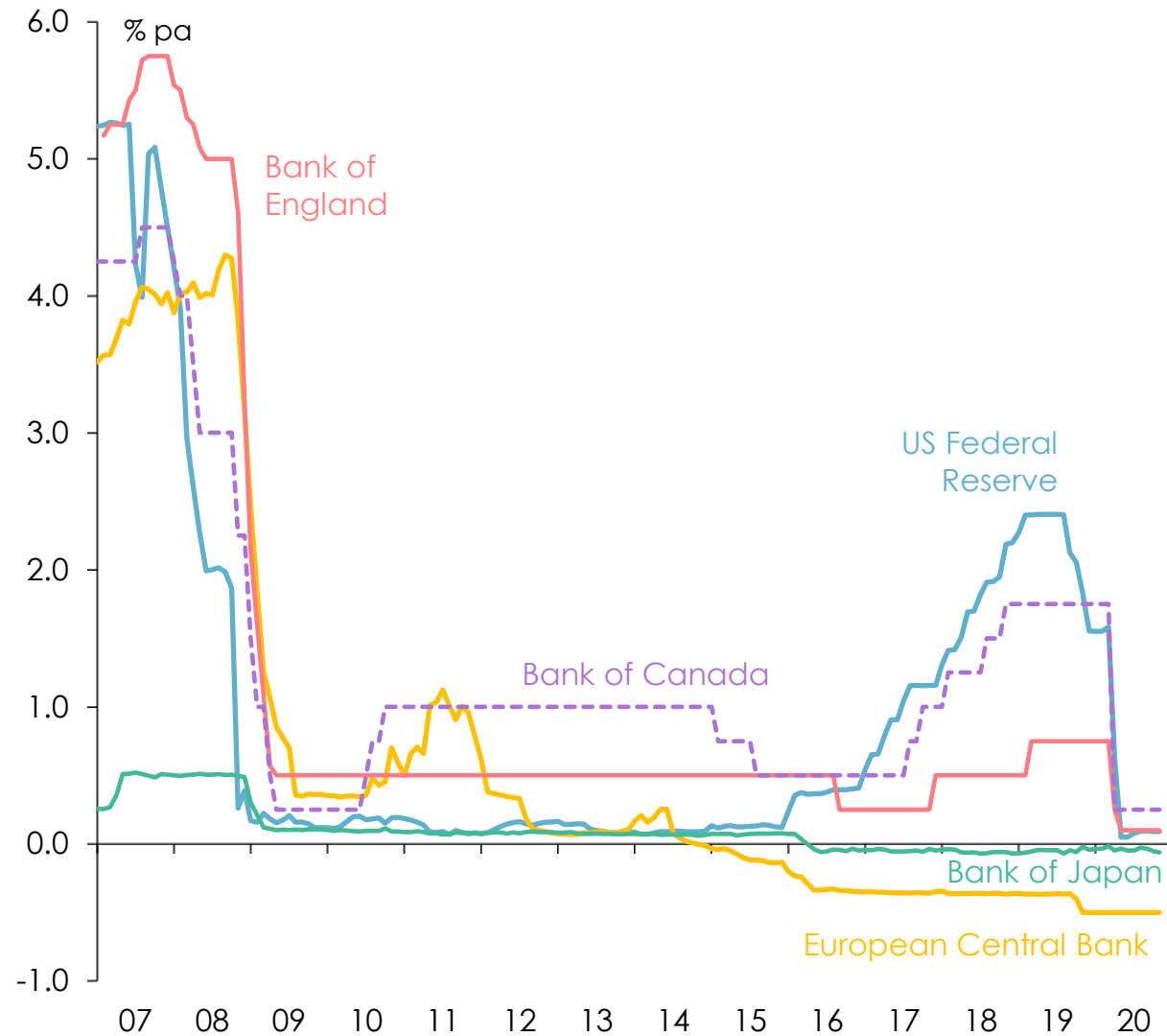


General government net debt (right scale)

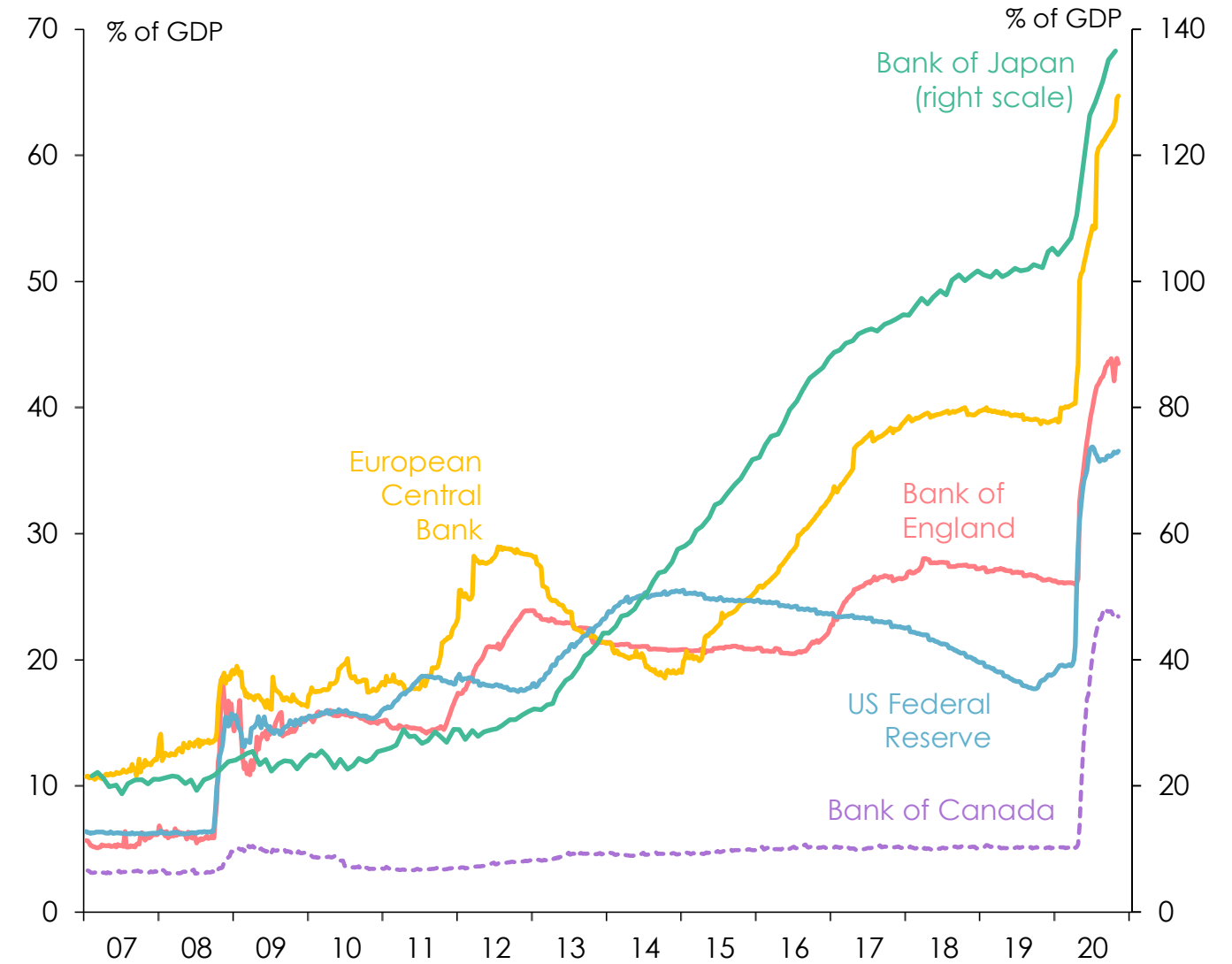
Note: China debt is gross debt, not net; Australian data are for the federal government only and are for fiscal years ended 30th June; NZ data are for fiscal years ended 31st March. Sources: International Monetary Fund, [Fiscal Monitor](#), and [World Economic Outlook](#), October 2020; Australian Government, 2020-21 [Budget Paper No. 1](#), October 2020; New Zealand Treasury, [Pre-Election Economic and Fiscal Update](#), September 2020.

Major central banks have cut interest rates to record lows, and done more 'quantitative easing' than during the global financial crisis

Major central bank policy interest rates



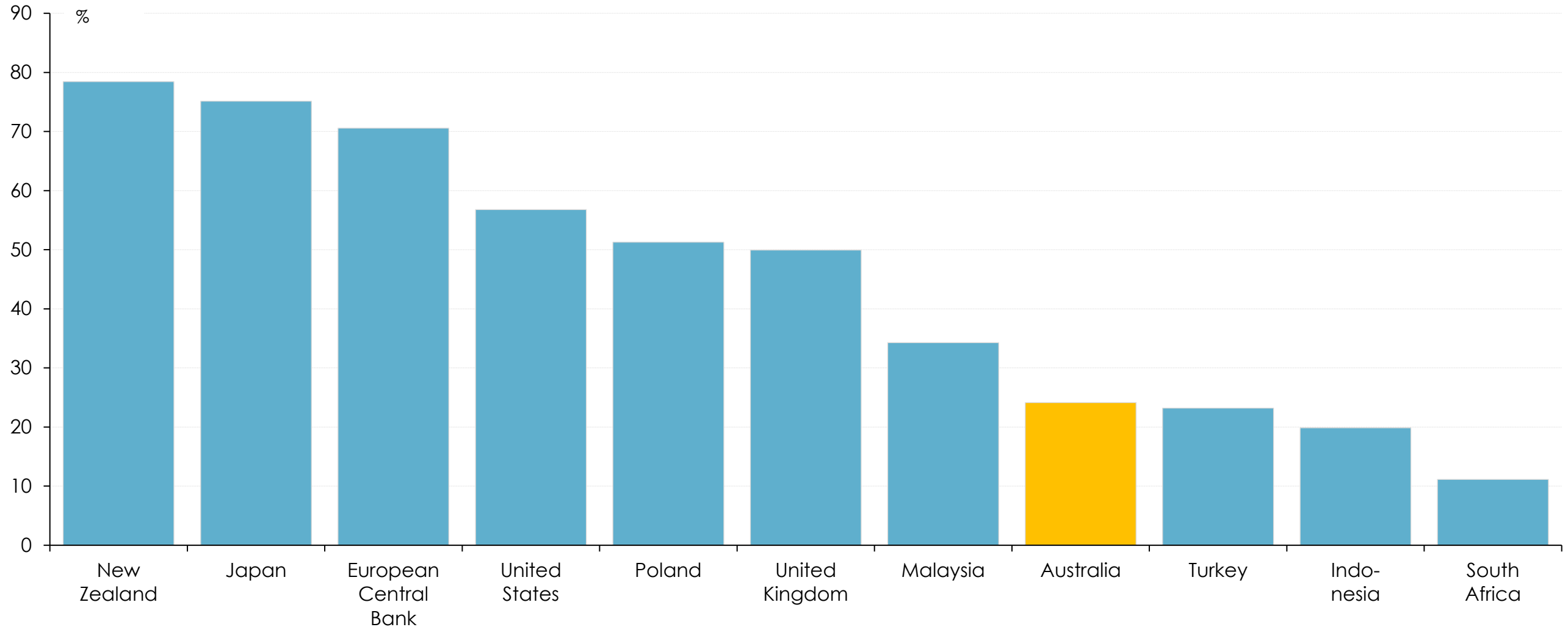
Major central bank balance sheets



Sources: [US Federal Reserve](#); [European Central Bank](#); [Bank of Japan](#); [Bank of England](#); [Bank of Canada](#); national statistical agencies; Corinna.

Australia's Reserve Bank has done less government bond-buying than most of its sister central banks

Central bank purchases of national government marketable securities or debt, as a percentage of total gross issuance, since end-February 2020

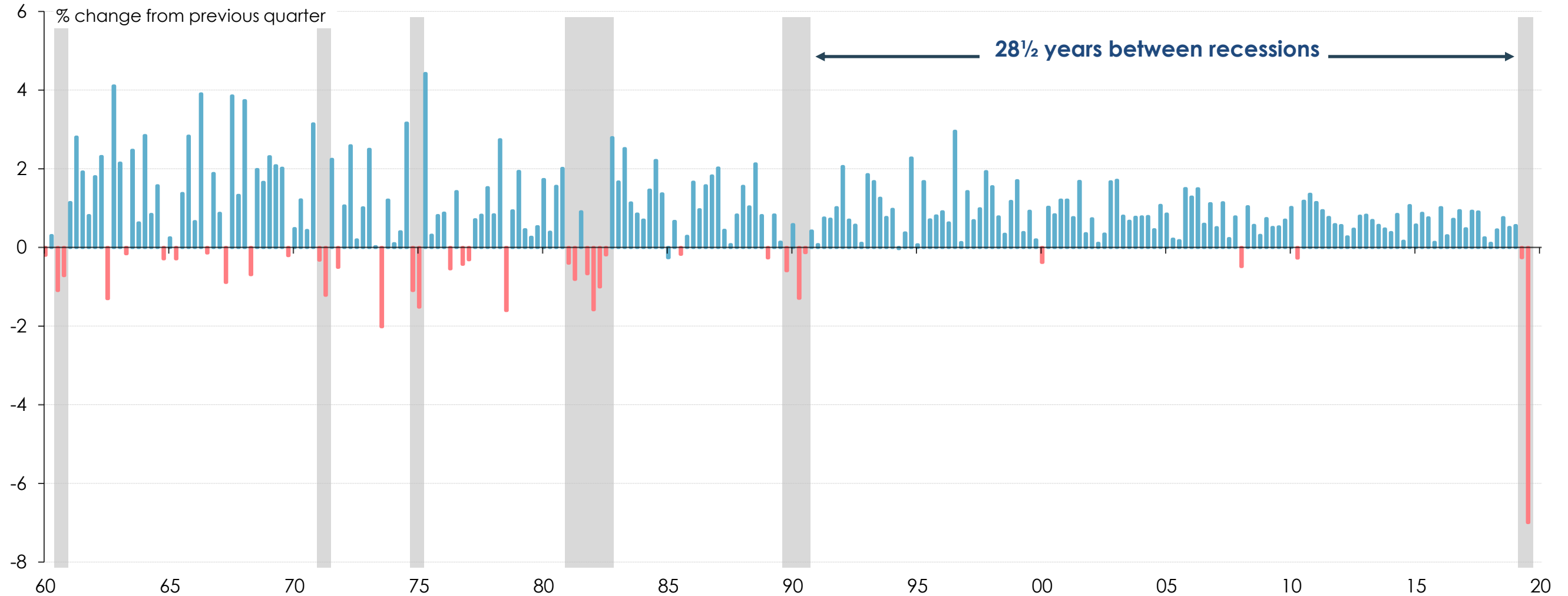


Sources: IMF, [Fiscal Monitor](#), October 2020; and for Australia and New Zealand, calculations by Corinna using data sourced from [Australian Office of Financial Management \(AOFM\)](#), [Reserve Bank of Australia](#), [New Zealand Treasury](#) and [Reserve Bank of New Zealand](#) (excludes purchases and issuance of Treasury notes).

The Australian economy

Australia's record-breaking run of almost 30 years without a recession has come to an end

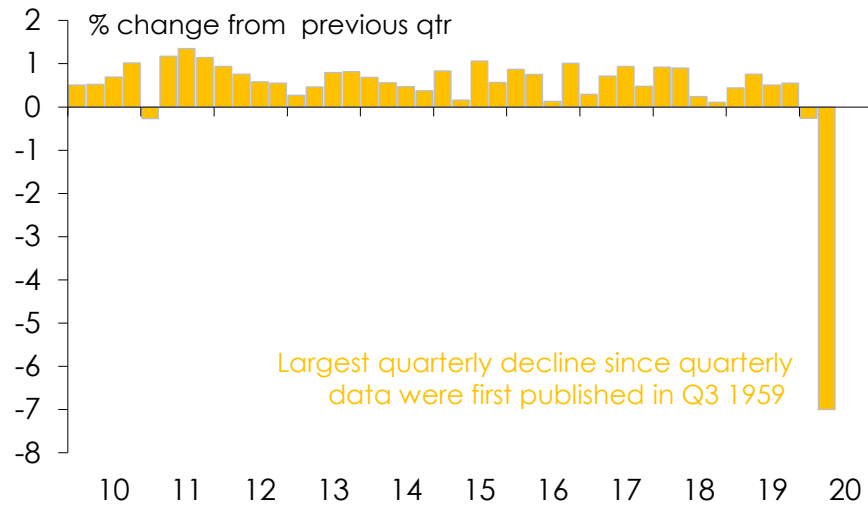
Quarterly growth in Australian real GDP, 1960-2020



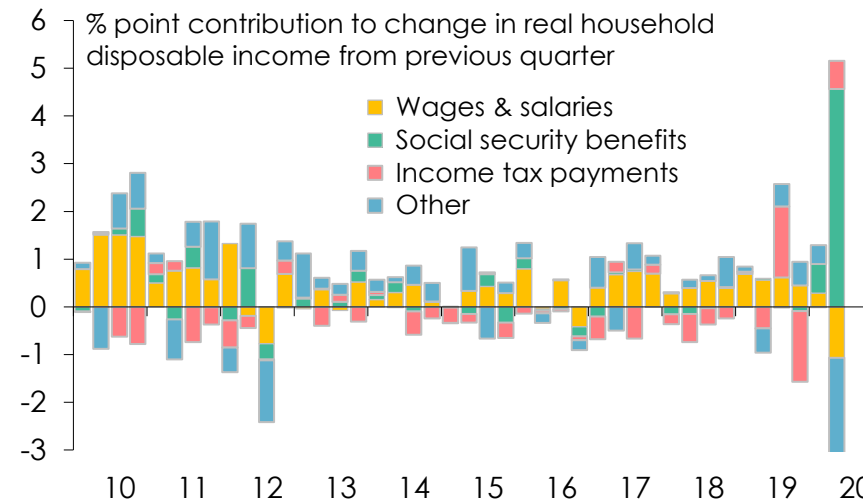
Note: Shaded areas denote recessions. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), June quarter 2020.

Real GDP fell a record 7.0% in Q2 after a 0.3% decline in Q1, the first time there have been two consecutive declines since Q1 and 12 1991

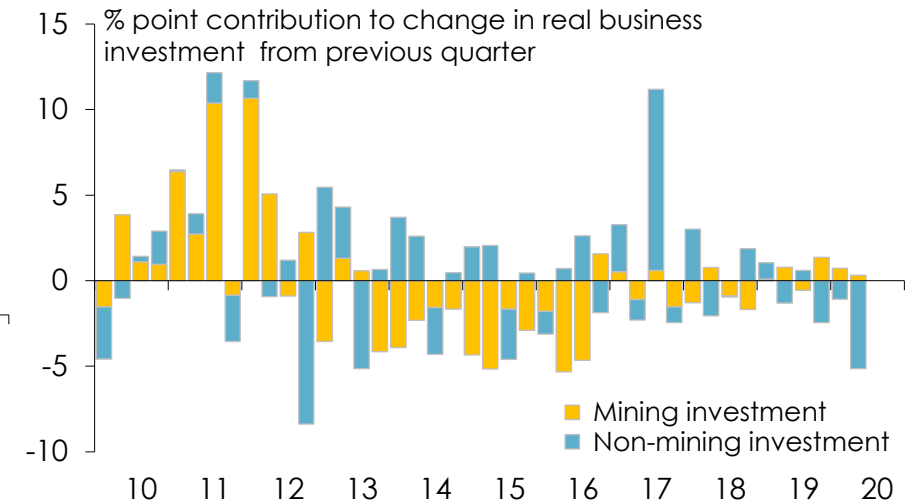
Quarterly change in real GDP



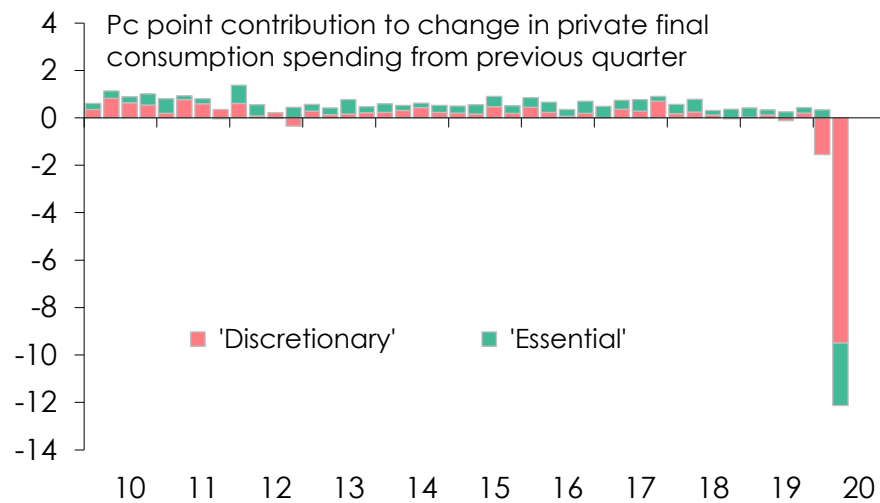
Household disposable income



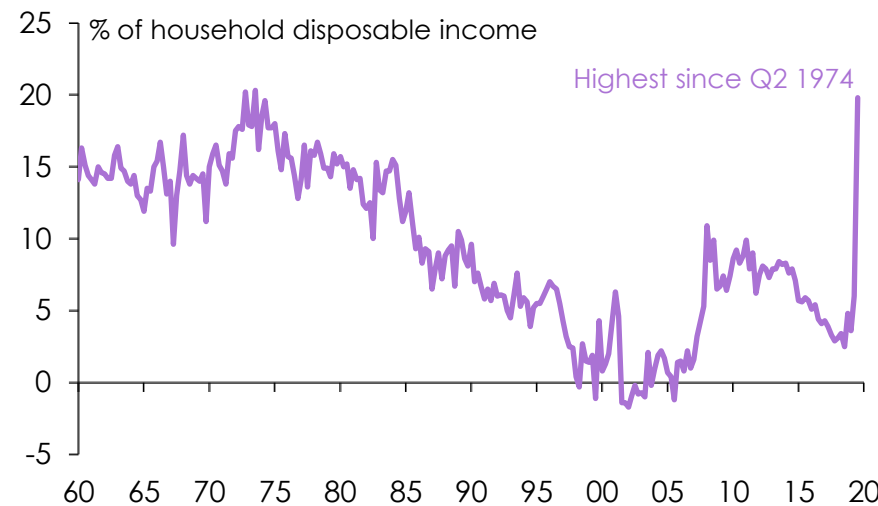
Business investment expenditure



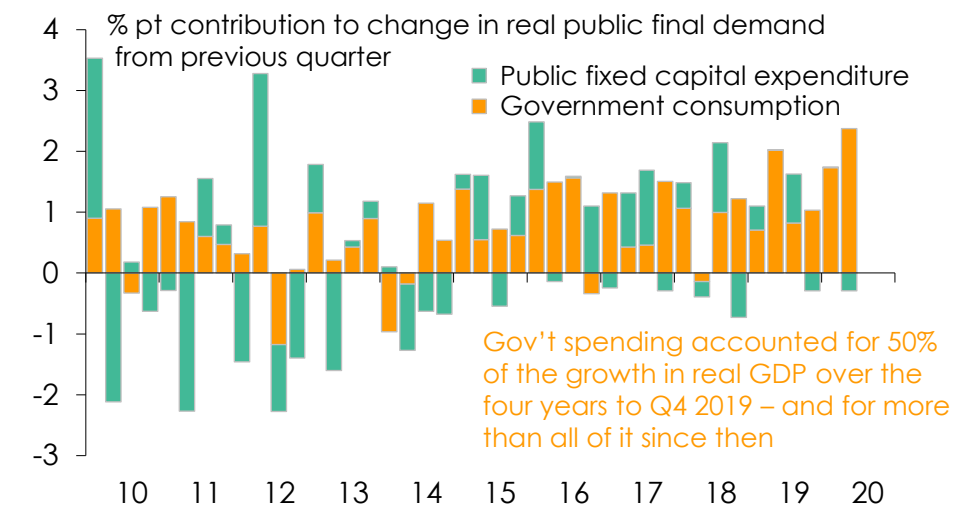
Household consumption expenditure



Household saving rate



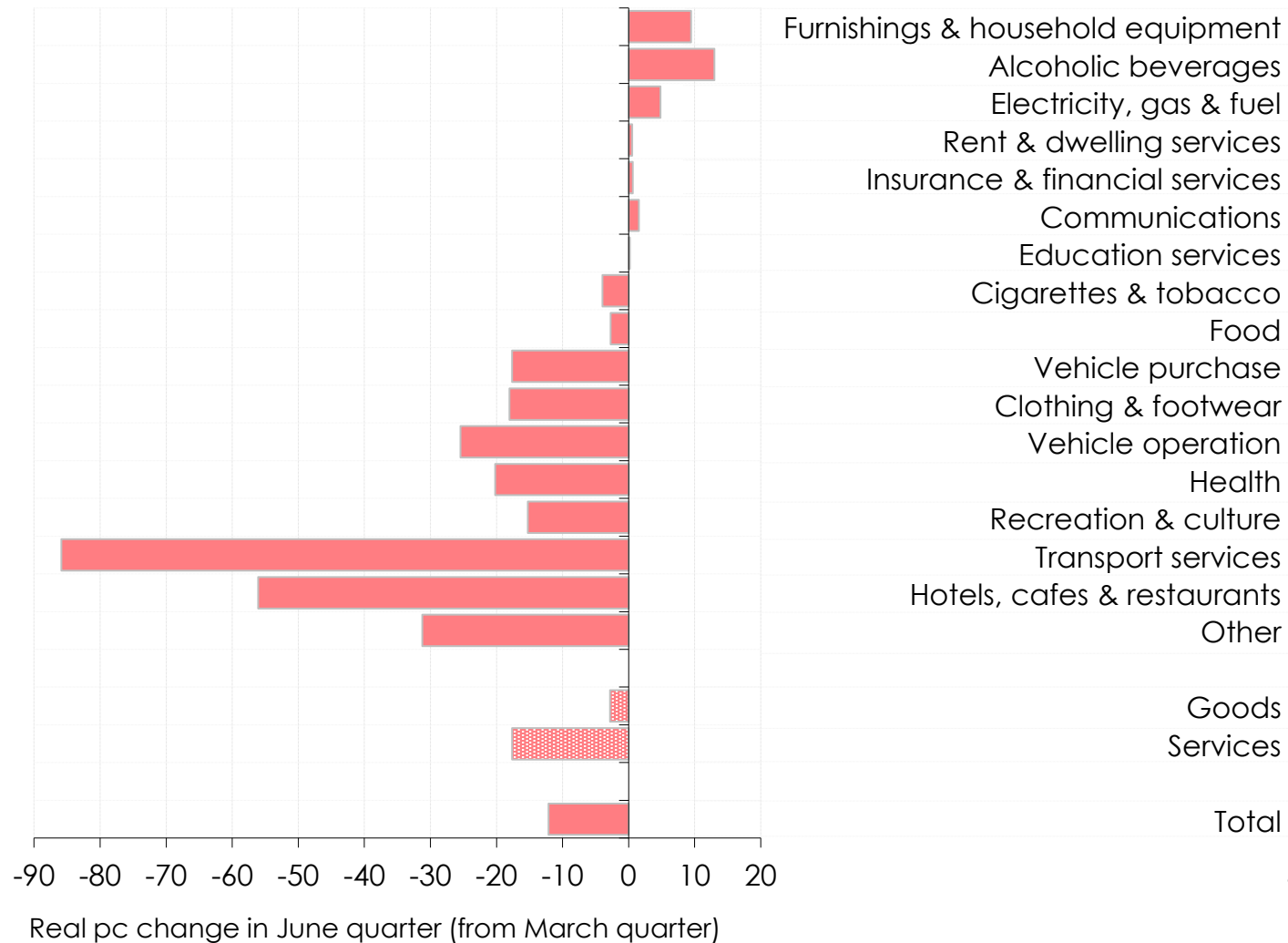
Public expenditure



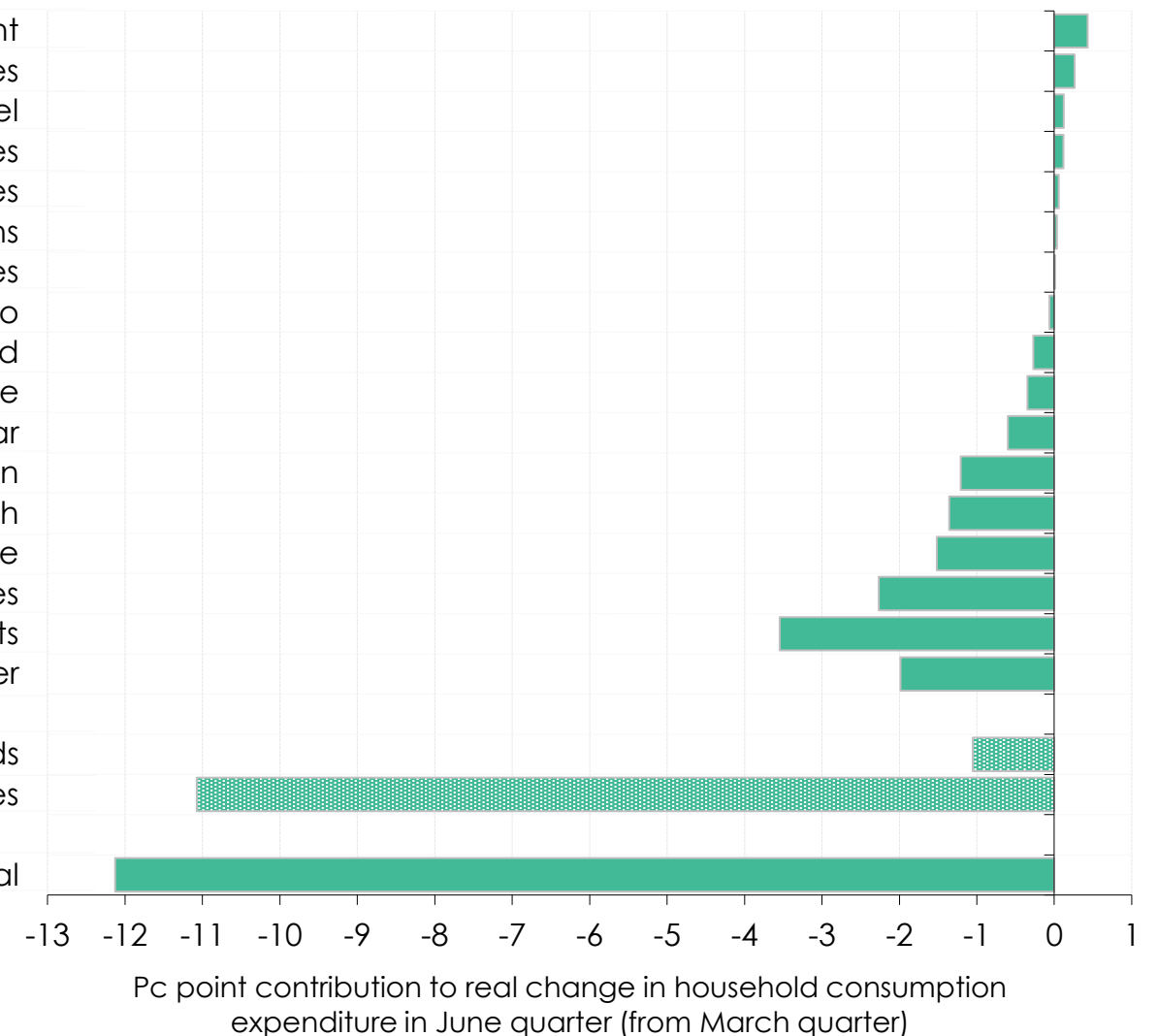
Note: 'Essential' household consumption expenditure comprises food; rent & other dwelling services; electricity, gas & other fuel; operation of vehicles; rail, bus & taxi services; communications; health; education; and insurance & other financial services. Components of household disposable income are deflated by the implicit price deflator of household final consumption expenditure. Source: [ABS](#).

The record 12.1% fall in consumer spending in Q2 was largely driven by sharp declines in spending on discretionary services

Change in household consumption spending, by category, June quarter



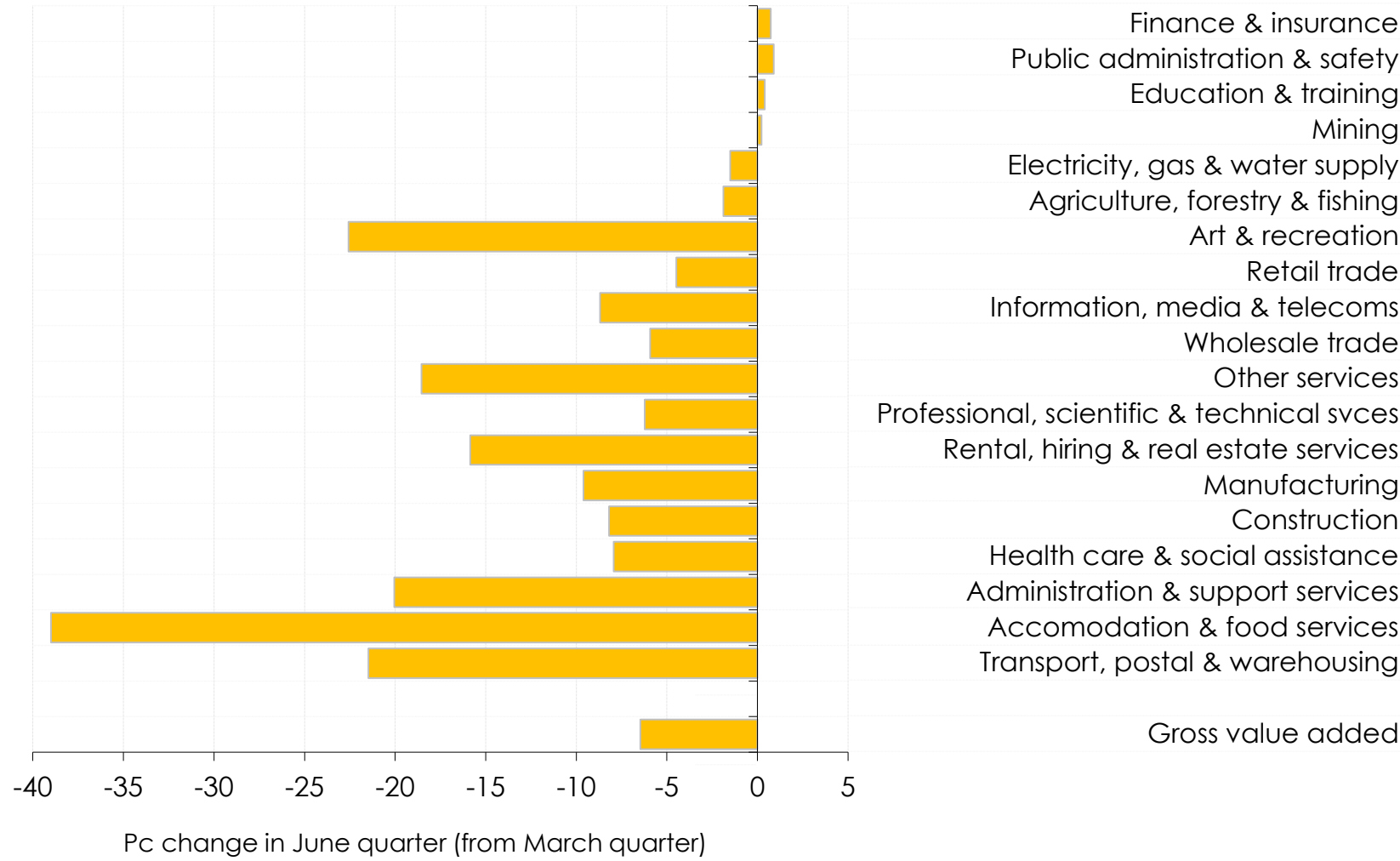
Contribution to change in household consumption spending, by category, June quarter



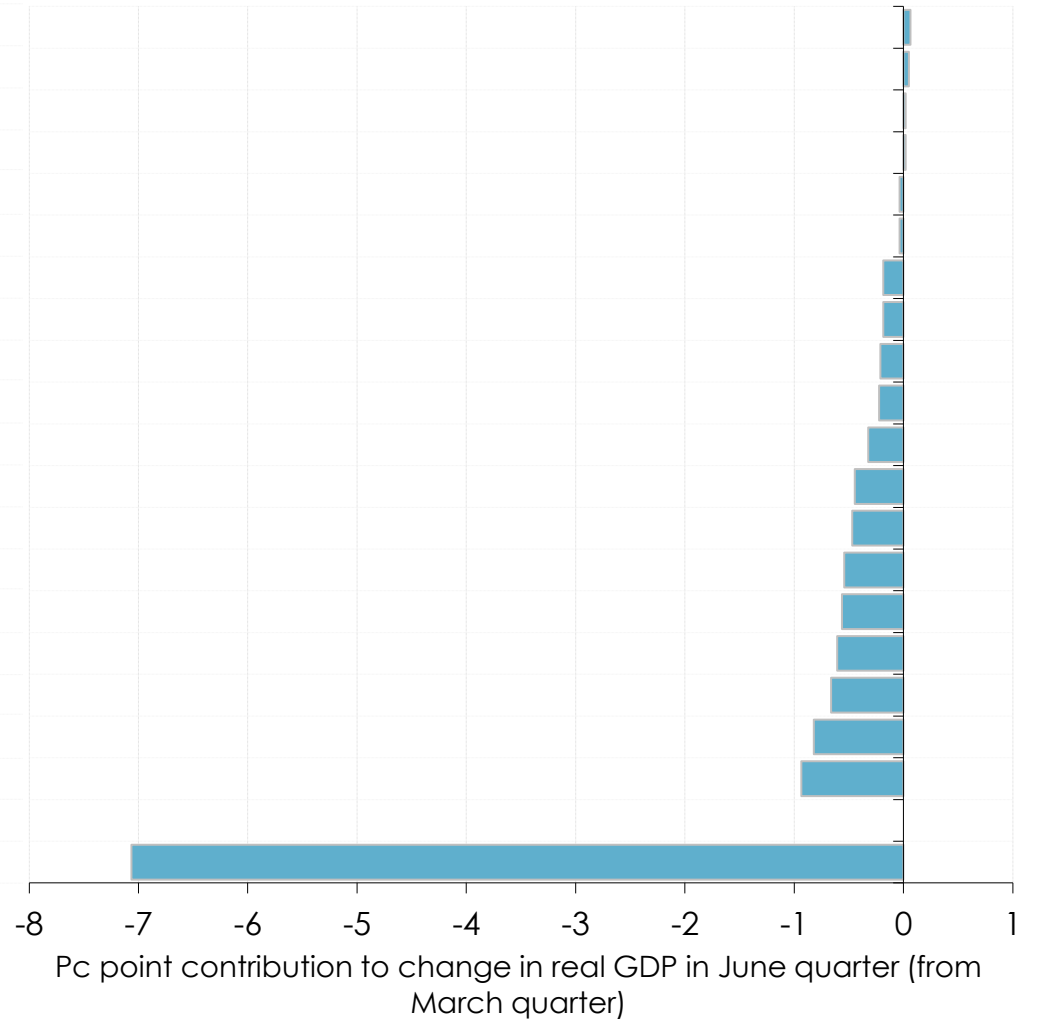
Note: 'Rent and dwelling services' includes the imputed rent which home-owners pay to (and receive from) themselves in the national accounts (so that changes in the home-ownership rate over time don't distort measured household consumption or GDP). Source: [ABS](#).

From an industry standpoint the record decline in real GDP in Q2 was driven by falls in manufacturing, construction and private sector services

Change in real gross value added, by industry, June quarter



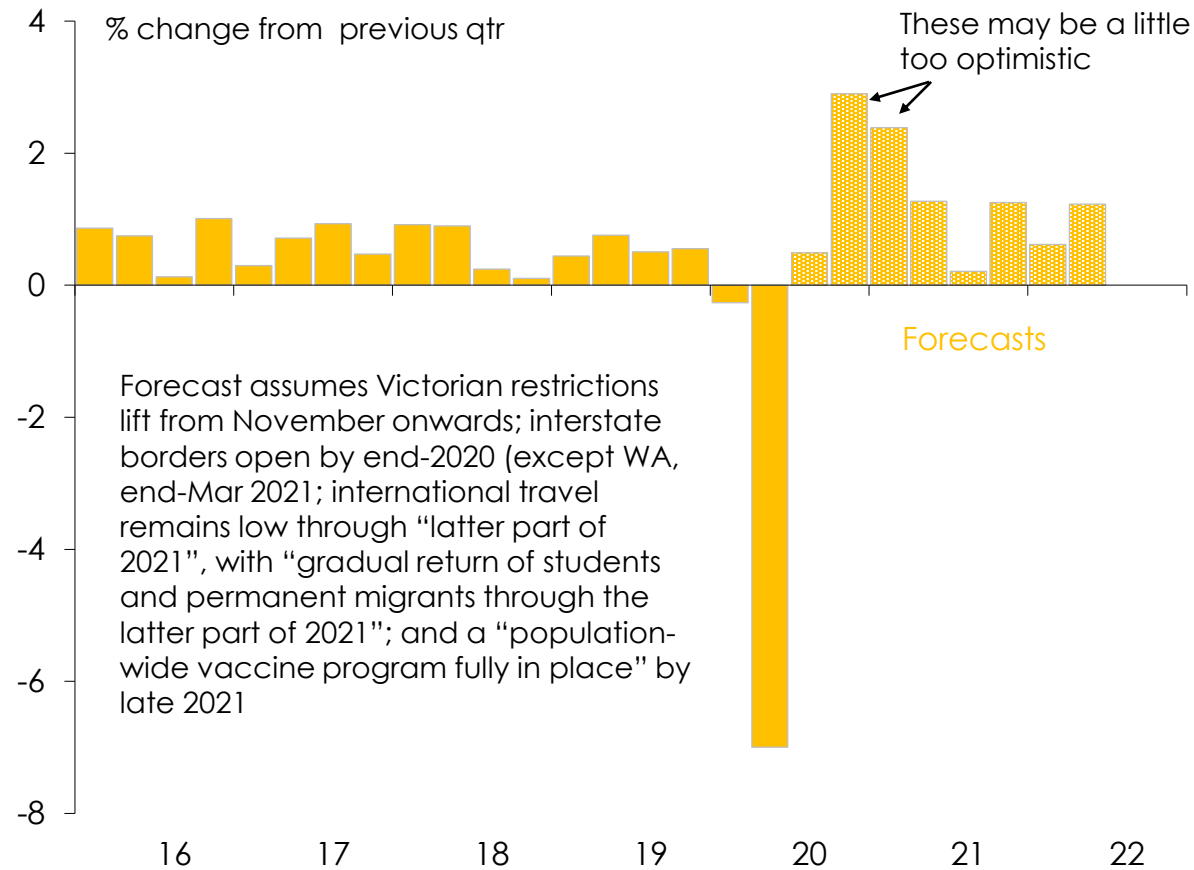
Contribution to change in real GDP, by industry, June quarter



Note: Changes in, and contributions to the change in real GDP from, ownership of dwellings and net indirect taxes are not shown in the above charts. Source: [ABS](#).

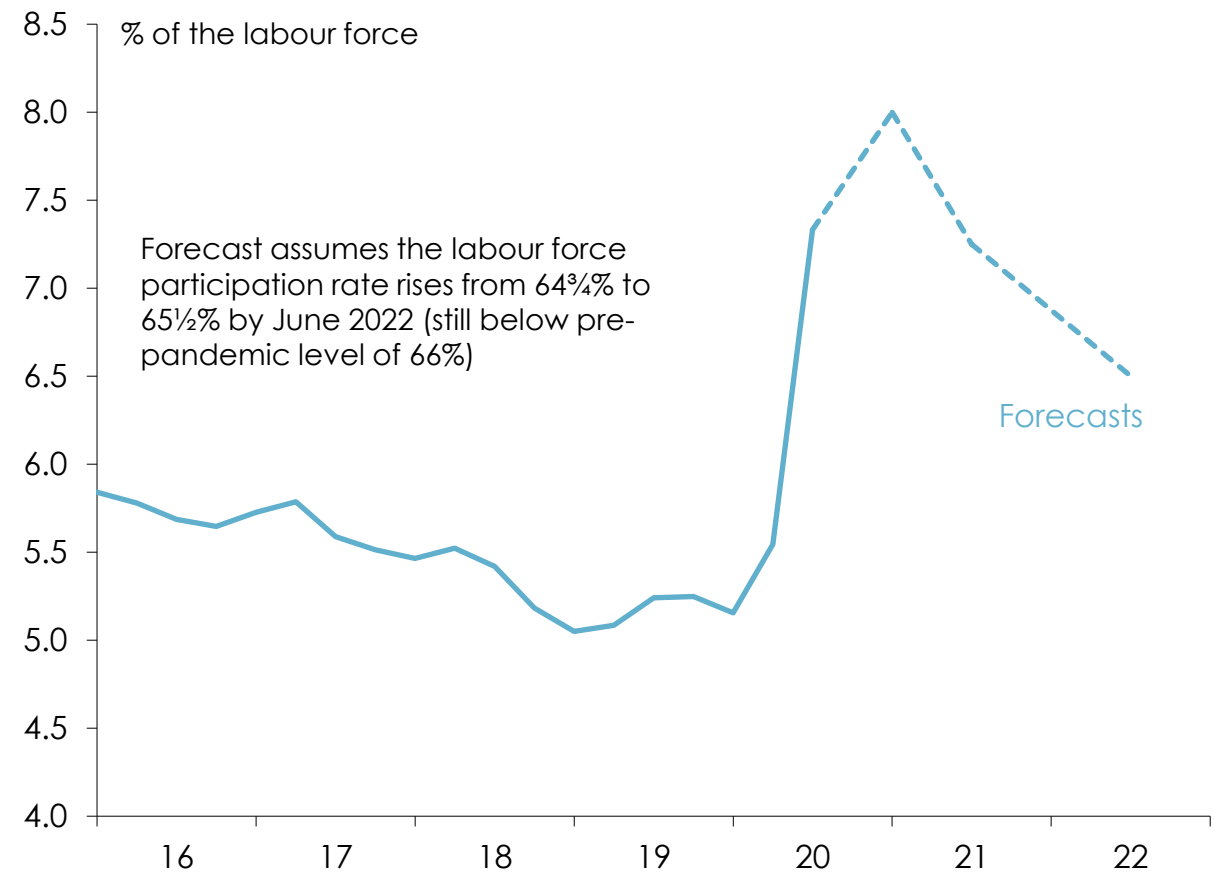
The Government expects a 'growth surge' over summer followed by more modest growth in 2021-22

Real GDP growth



- Treasury expects that economic growth resumed in the September quarter, will reach almost 3% in the December quarter, 2½% in the March quarter 2021 and then average ¾% per quarter for the next 5 quarters

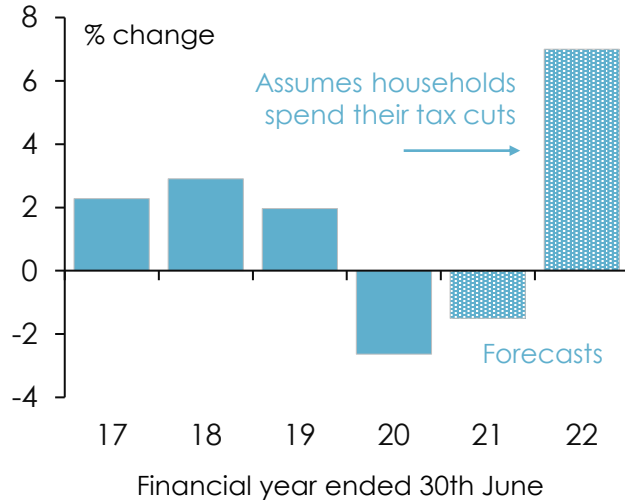
Unemployment



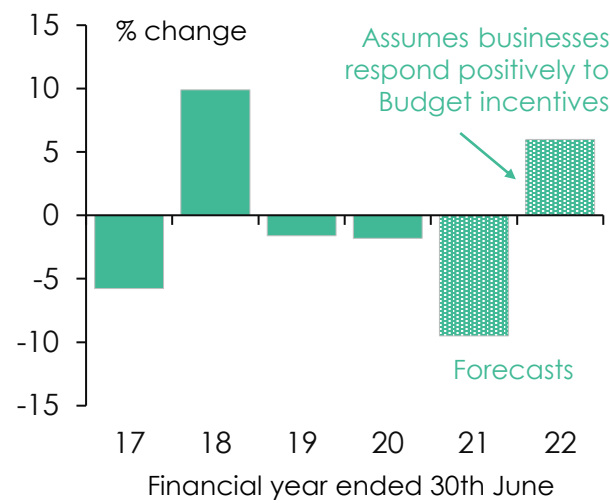
- Treasury expects the unemployment rate to peak at 8% in the December quarter, and then fall to 6½% by the June quarter 2022

Household consumption and housing investment are expected to drive the recovery, while the current account balance is set to back into deficit

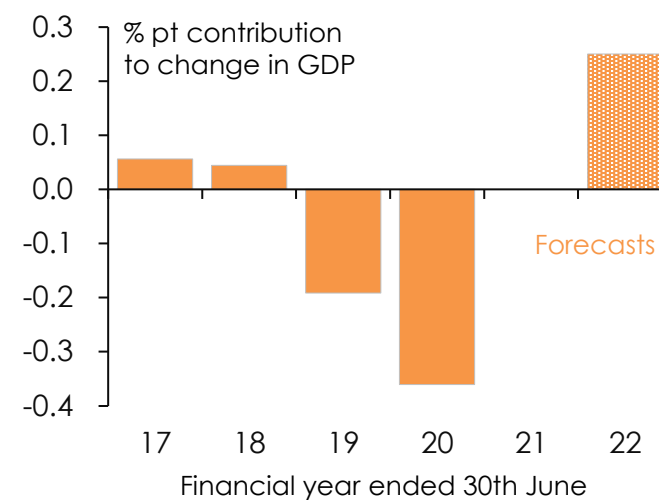
Household consumption



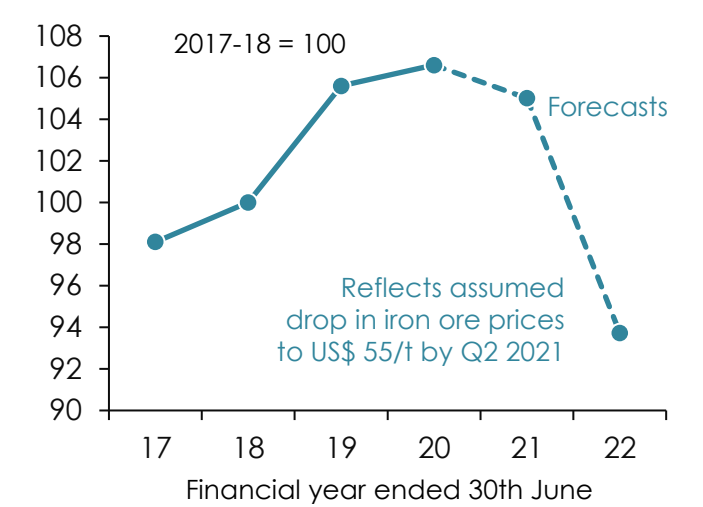
Business investment



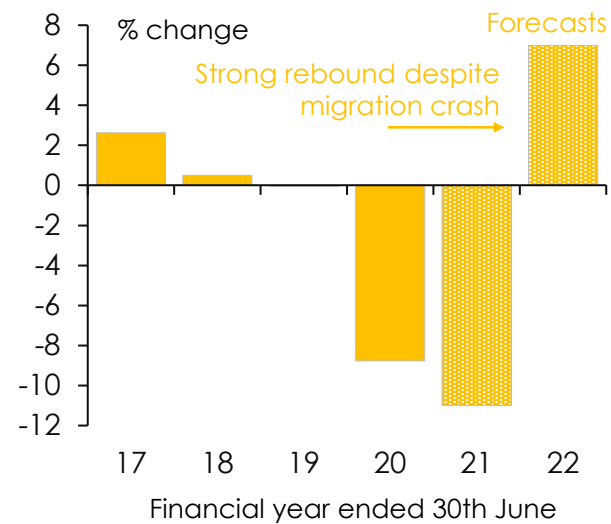
Change in inventories



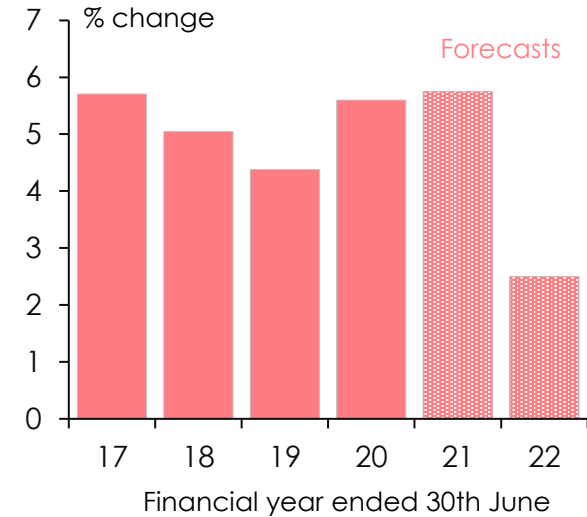
Terms of trade



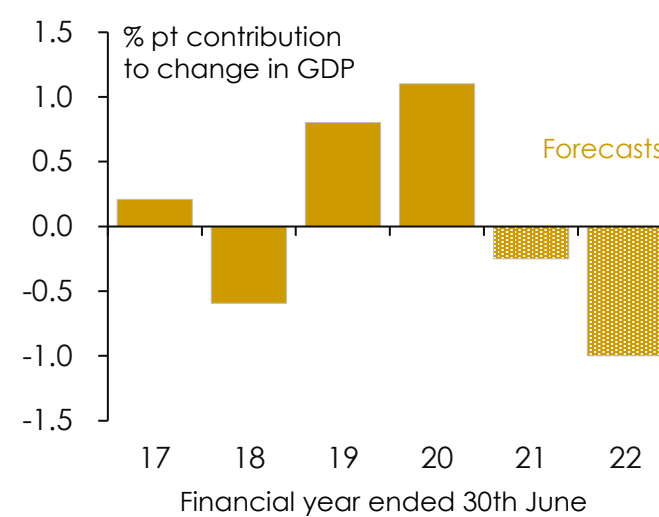
Dwelling investment



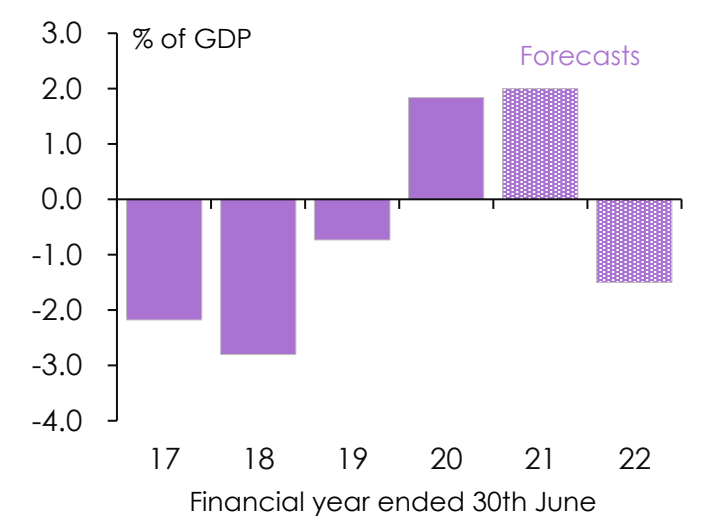
Public spending



Net exports



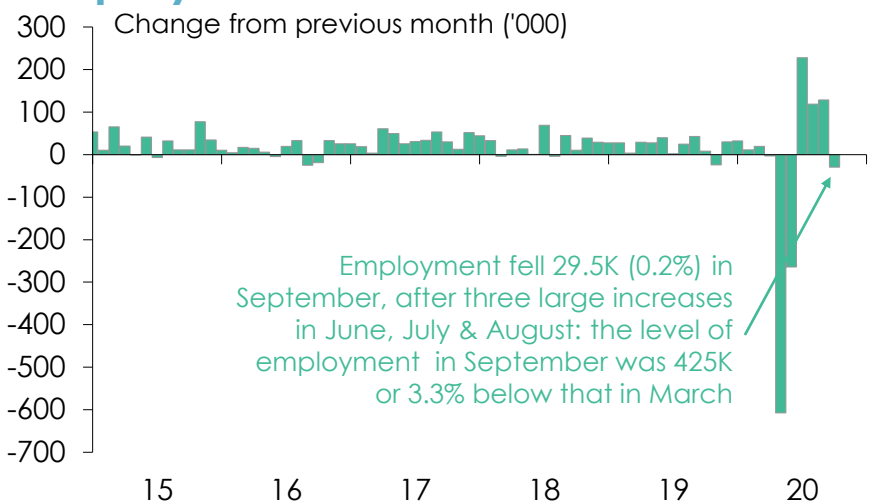
Current account balance



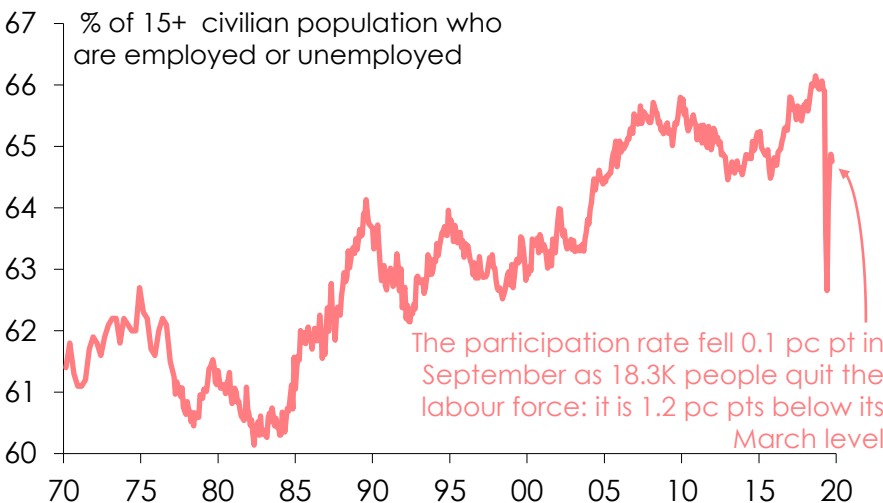
Note: Business investment and public spending exclude transactions in second-hand assets. Employment growth is June quarter on June quarter; unemployment rate is June quarter; all other figures are for financial years. Net overseas migration assumed to fall from 223K in 2018-19 to 154K in 2019-20, -72K in 2020-21 and -22K in 2021-22; international travel bans lifted gradually through 2021; iron ore price falling to US\$55/t FoB by June 2021; metallurgical and thermal coal prices remaining at US\$108/t and \$51/t respectively; oil prices at US\$46/bbl; and the A\$ remaining at around US72¢. Sources: ABS; Australian Government, 2020-21 [Budget Paper No. 1, Statement No. 2](#).

The impact of the recession on the labour market hasn't been as bad as originally anticipated

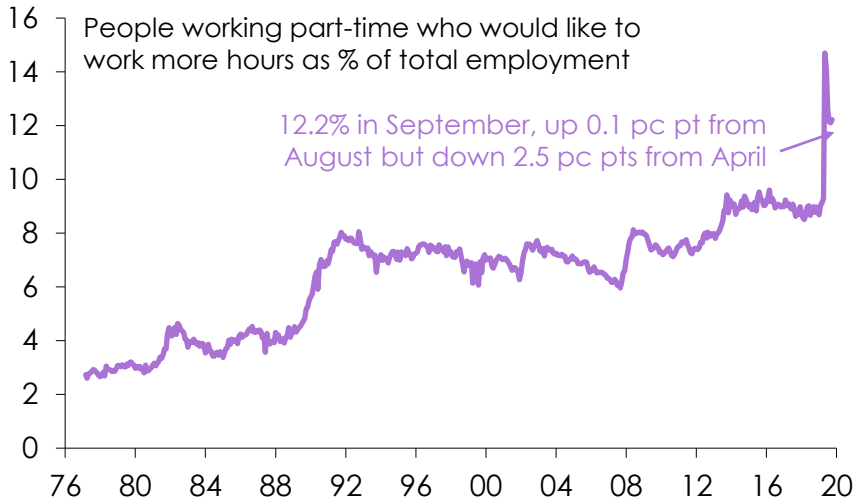
Employment



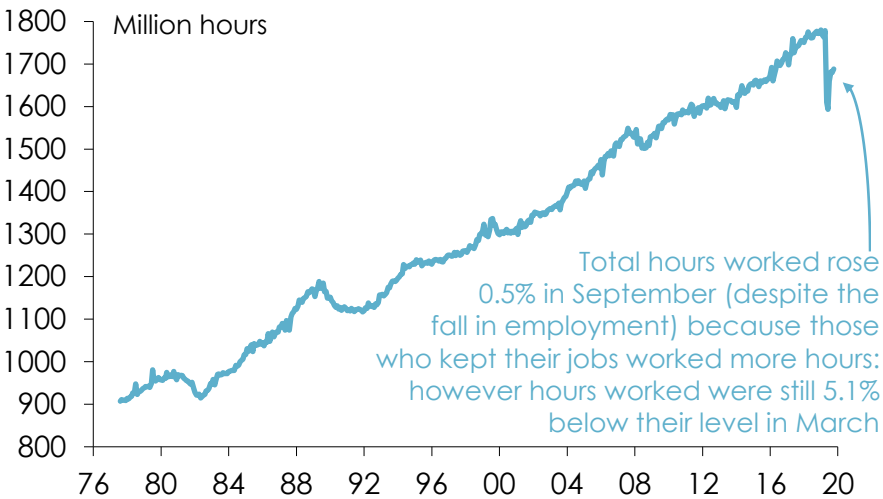
Labour force participation rate



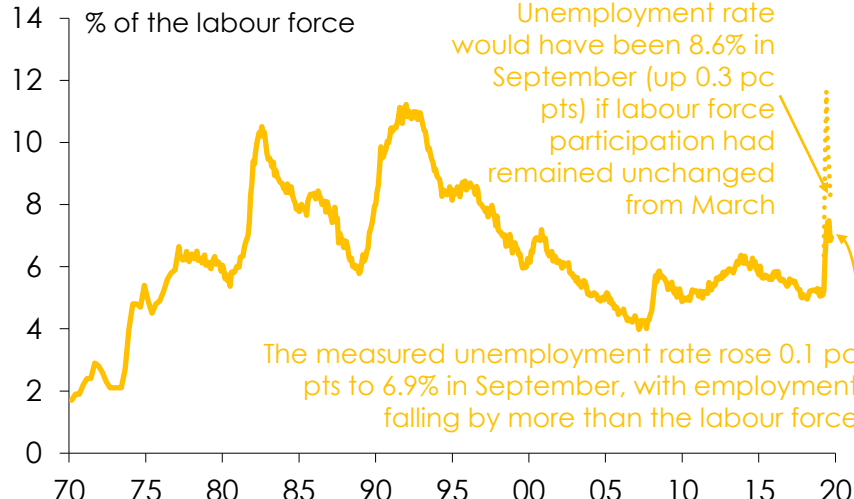
Under-employment ratio



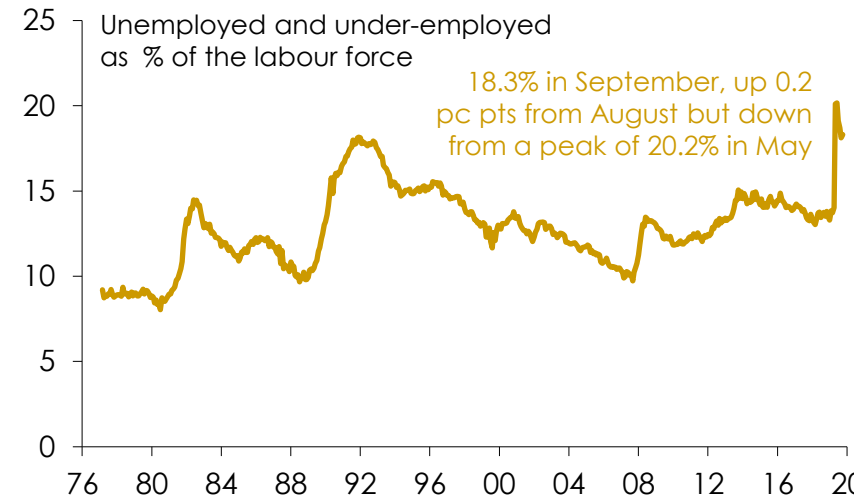
Total hours worked



Unemployment rate



'Under-utilization' rate



Note: The ABS classifies people on JobKeeper who worked zero hours in the survey week as 'employed'. Had it not done so, the unemployment rate in August would have been 7.9% (down from 11.8% in April) – see also next slide. The 'under-employment ratio' is the percentage of employed persons who are working fewer hours than they are willing and able to work. The 'under-utilization rate' is the proportion of the labour force who are unemployed or underemployed.

Source: ABS, [Labour Force, Australia](#).

The unemployment rate would have been 10.6% in September including people who worked zero hours or had dropped out of the labour force

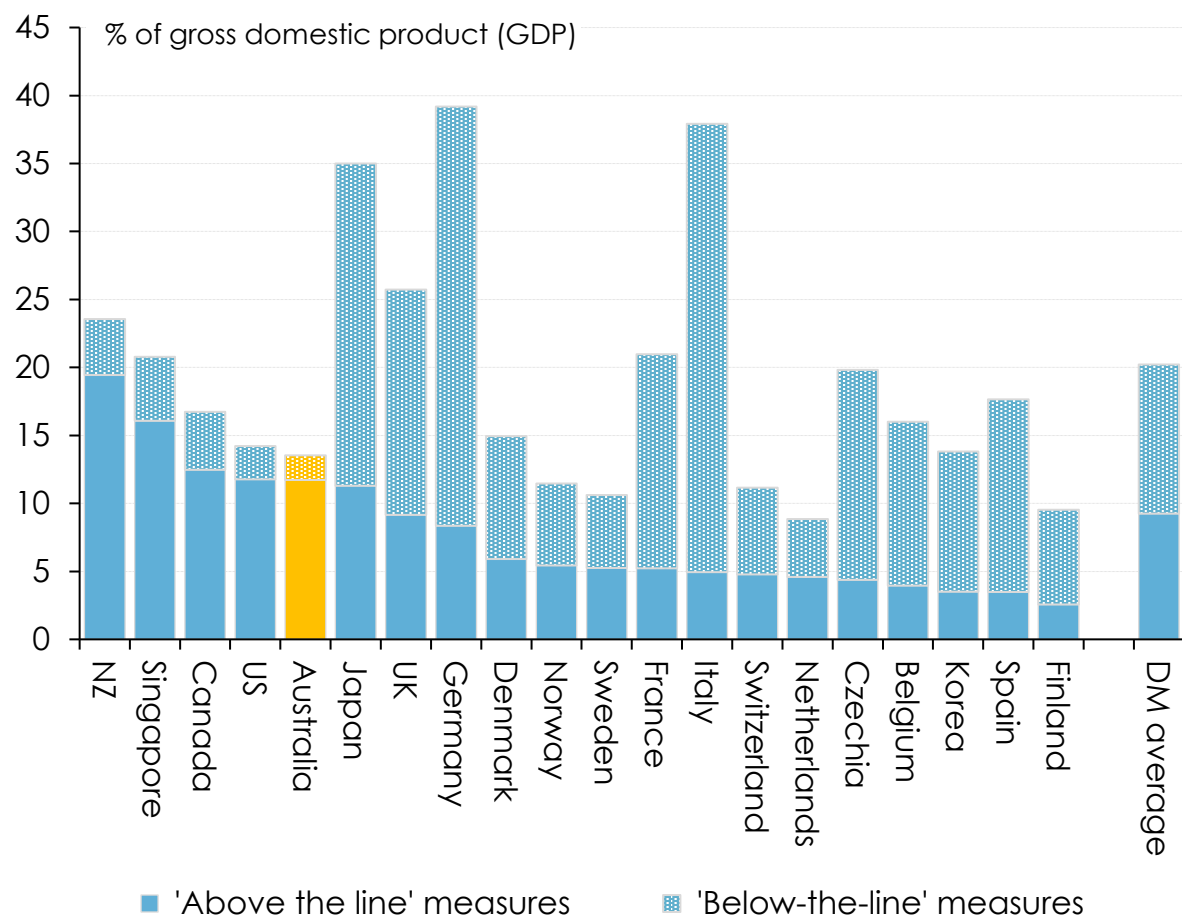
Alternative measures of unemployment



- ❑ The Government's JobKeeper program paid eligible employers a subsidy of \$1500 per fortnight for each eligible employee kept on the payroll between 30th March and 27th September (although payments didn't start until the beginning of May)
- ❑ About 3.35 mn people (27% of total employment) are currently being supported through JobKeeper
- ❑ From 28th September the JobKeeper payment reduced to \$1200 per fortnight, with a lower rate of \$750 per fortnight for employees who were working fewer than 20 hours per week in the four weeks prior to 1st March ...
- ❑ ... and will reduce further to \$1000 per fortnight (and \$650 per fortnight for those who had been working fewer than 20 hours per week) from 4th January until 28th March, when JobKeeper is currently scheduled to end
- ❑ Employers will also need to demonstrate that they continued to meet the 'drop in turnover' criteria (30% for businesses with turnover of \$1 bn or less, 50% for large employers, 15% for not-for-profits) in both Q3 and Q4 to remain eligible for JobKeeper payments

The Australian Government's policy measures have been large by historical and international standards

Fiscal policy responses to Covid-19 – selected 'advanced' & Asia-Pacific economies



Note: 'Above the line' measures comprise additional or accelerated spending and deferred or foregone revenue. 'Below the line' measures comprise equity injections, loans, asset purchases and debt assumptions, but do not include loan guarantees or other contingent liabilities. 'DMs' means 'developed markets' (or 'advanced economies'). Data includes measures announced up until 20th September 2020.

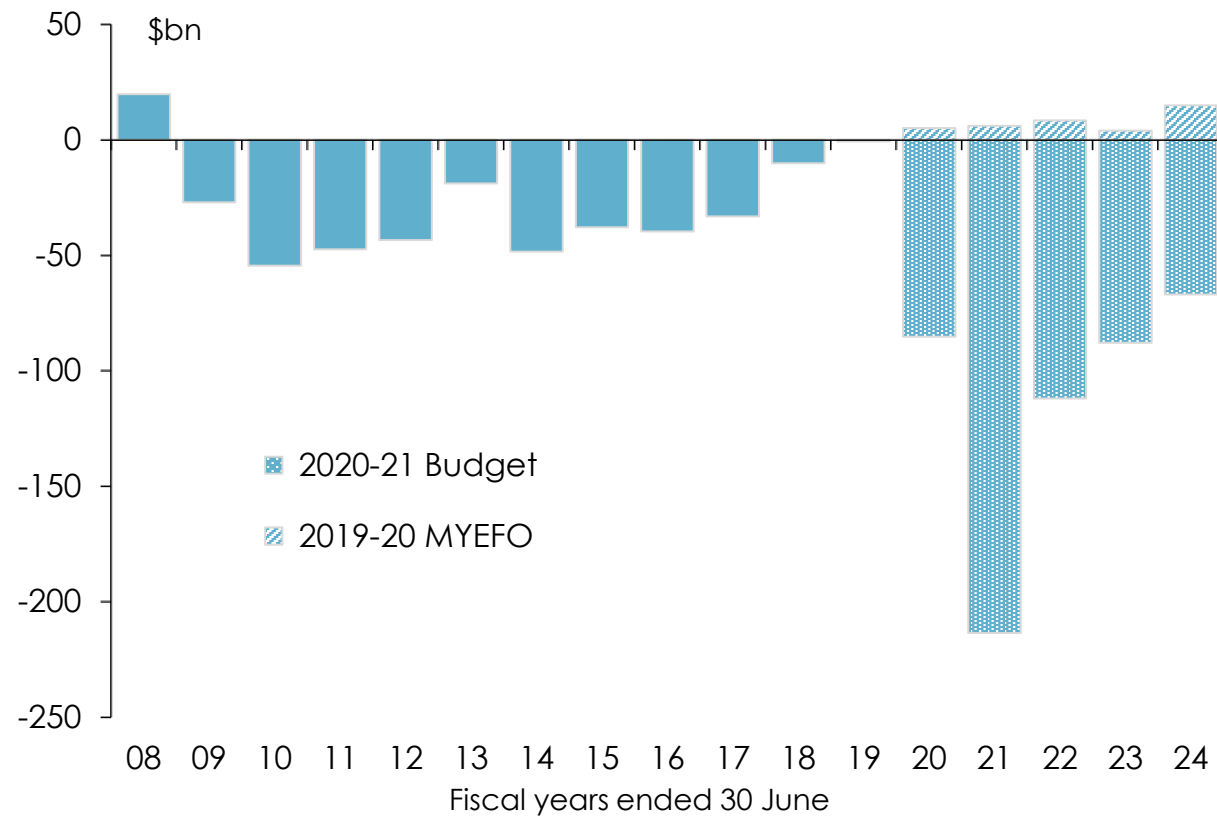
Source: IMF, [Fiscal Monitor](#), October 2020.

- ❑ Policy measures announced prior to this month's federal Budget totalled A\$232bn over FYs 2019-20 and 2020-21 or about 11³/₄% of one year's GDP – which is large by international standards (and double what was done during the GFC)
- ❑ Principal objectives of policy measures have been to –
 - maximize the 'survival prospects' of businesses affected by shutdowns, across Australia during the first (national) shutdown and more recently in Victoria
 - minimize the impact of the shutdown on employment
 - provide additional income support to those who lose their jobs
 - strengthen the capacity of the health care system to cope with increased demand
- ❑ Policy measures have been designed to be 'simple' to administer, and to make greatest use of existing systems rather than having to create new mechanisms
 - which (inevitably) resulted in some anomalies that took time to correct
- ❑ Policy measures also designed to be readily 'switched off' once the need for them has passed

The FY 2020-21 Budget, unveiled this month, confirms a dramatic deterioration in the Government's fiscal position

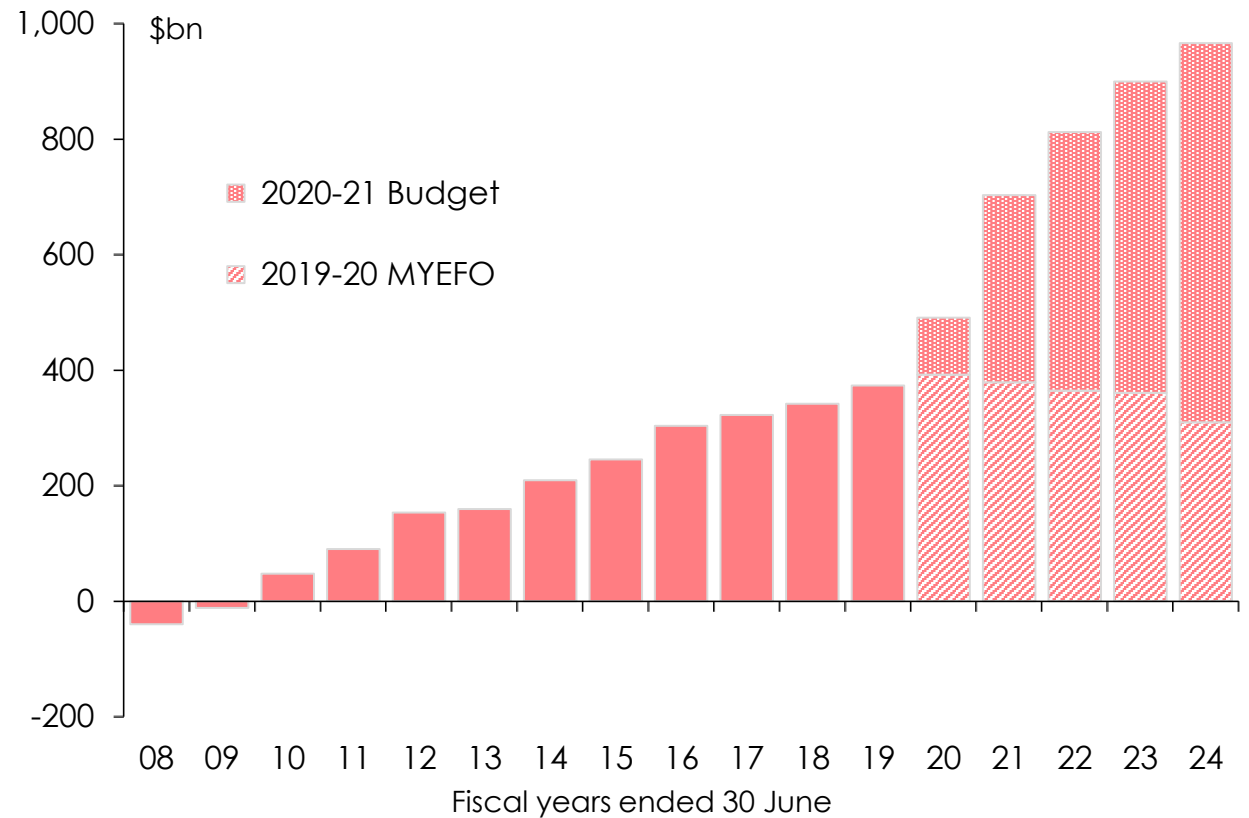
2019-20 Mid-Year Economic & Fiscal Outlook (MYEFO) and 2020-21 Budget forward estimates compared

'Underlying' cash balance



❑ Last December, the Government was confidently predicting a return to budget surpluses – now, it is forecasting deficits totalling \$566bn over the five years to 2023-24

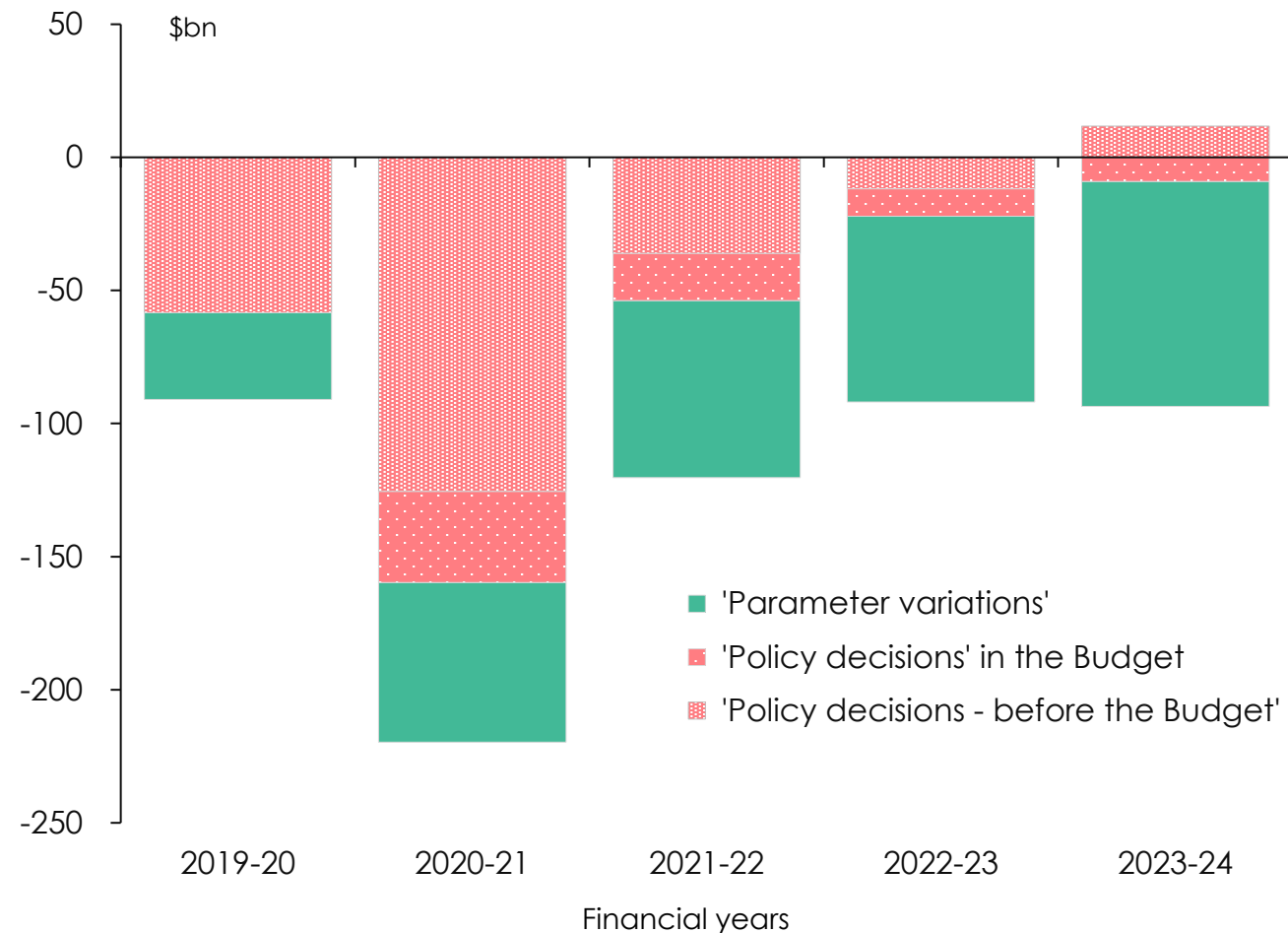
Net debt



❑ Last December, net debt was expected to have peaked at \$392bn in June 2020, and fall to \$310bn by June 2024 – instead it rose to \$490bn at June 2020, and is now expected to reach \$966bn by June 2024

The deterioration in the budget 'bottom line' is roughly equally attributable to 'policy decisions' and changes in the economic outlook

Sources of the changes in forward estimates of the budget's 'underlying cash balance' between the 2019-20 MYEFO and the 2020-21 Budget

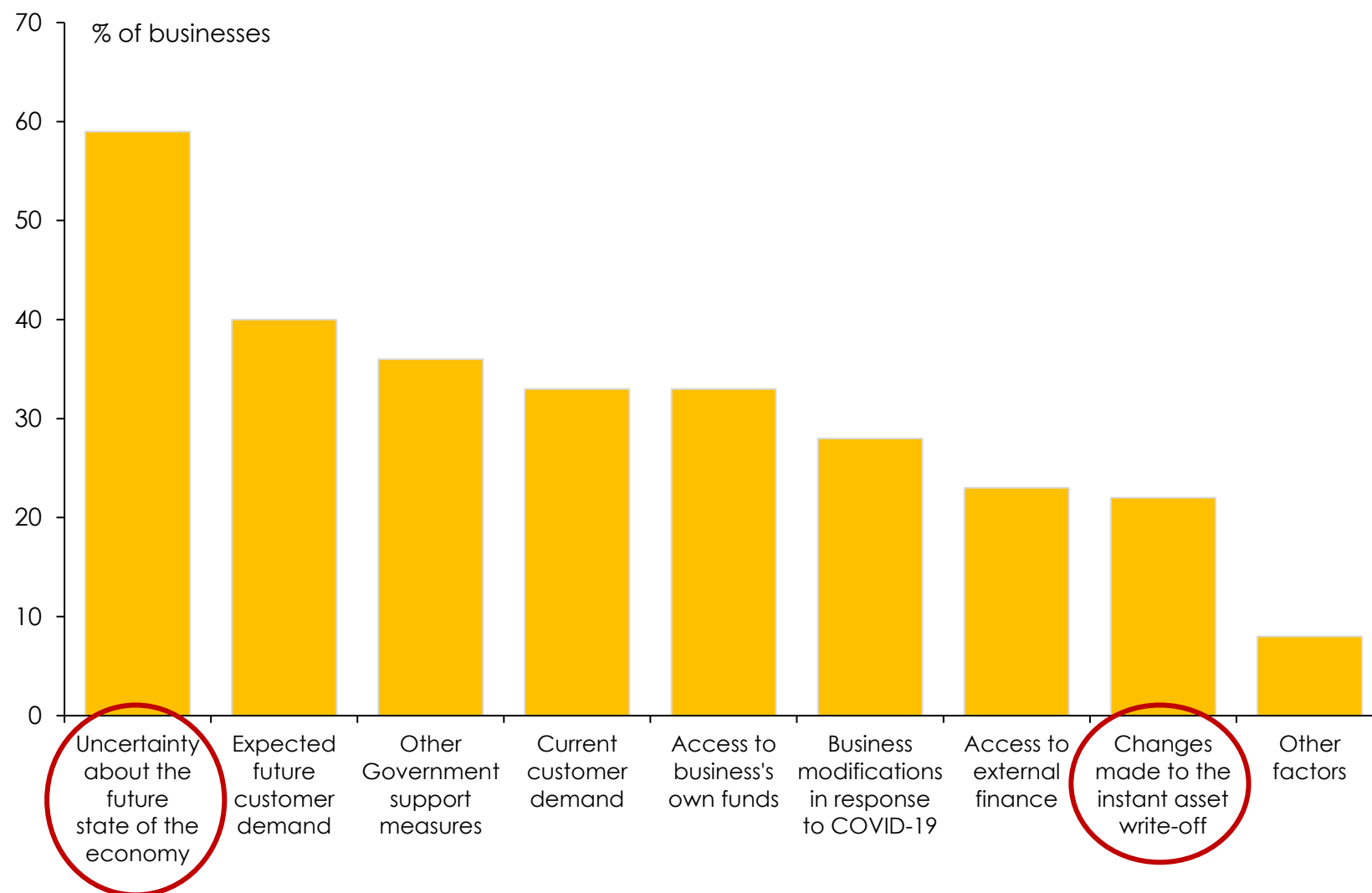


- ❑ In December last year the Government was anticipating budget surpluses totalling \$38.4bn over the five years to 2023-24: now it is forecasting deficits totalling \$566bn – a 'turnaround' of \$605bn
- ❑ Of that \$605bn 'turnaround',
 - \$292bn (just under half) is attributable to 'policy decisions', that is, conscious decisions to spend money or reduce taxes
 - and \$313bn (just under half) is attributable to what the Budget Papers call 'parameter variations', that is, changes in economic forecasts or other assumptions on which forward estimates of receipts and payments depend
- ❑ \$232bn (or 80%) of the 'policy decisions' were taken before the 2020-21 Budget (most of them in the first three months of the pandemic)
- ❑ 'Policy decisions' in the 2020-21 Budget amount to 'only' \$62bn
- ❑ \$160bn (55%) of the total 'policy decisions' affect the 2020-21 financial year

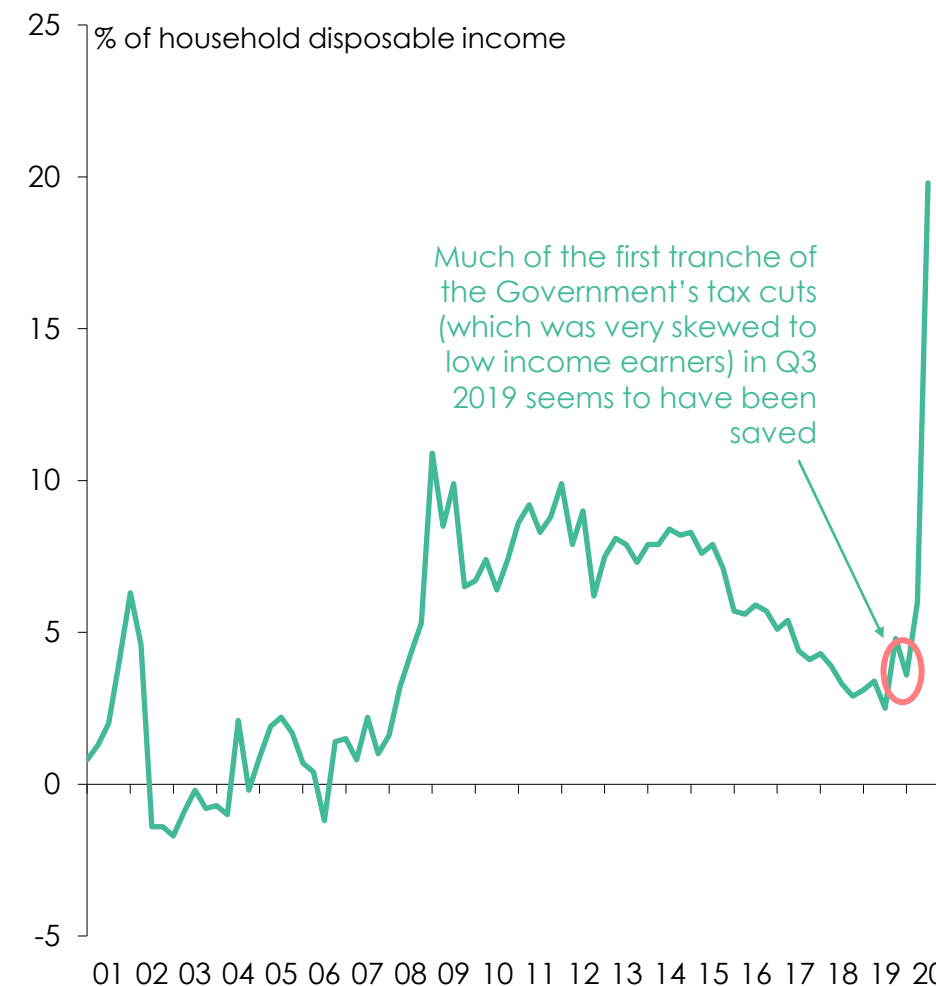
Source: Australian Government, 2020-21 [Budget Paper No. 1, Statement No. 3](#) and [Budget Paper No. 2, Budget Measures](#); Corinna.

It's by no means certain that businesses and households will respond to the budget incentives in the way that the budget assumes

Factors affecting business investment decisions, August 2020



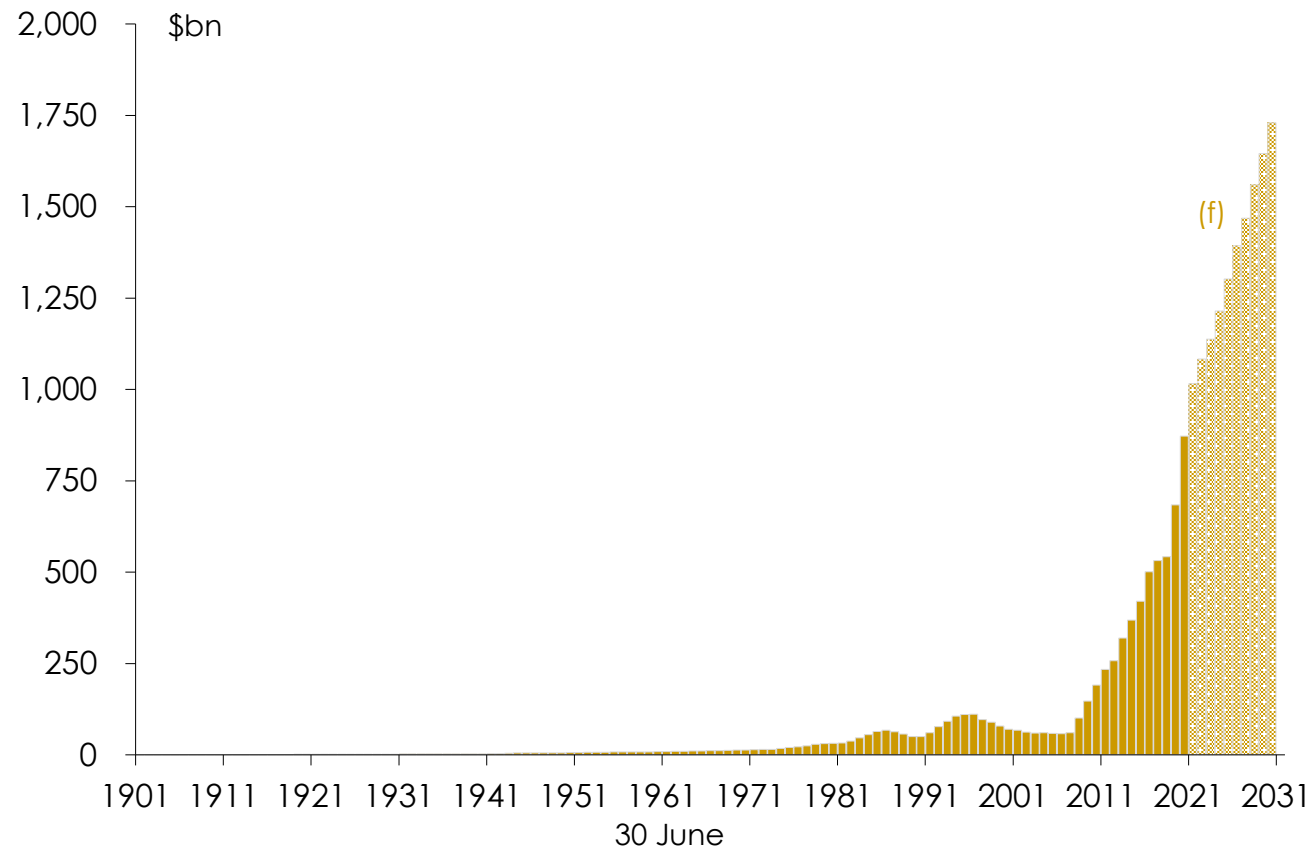
Household saving rate



Sources: ABS, [Business Impacts of Covid-19](#), August 2020 (based on survey conducted between 12th and 19th August); [Australian National Accounts: National Income, Expenditure and Product](#), June quarter 2020.

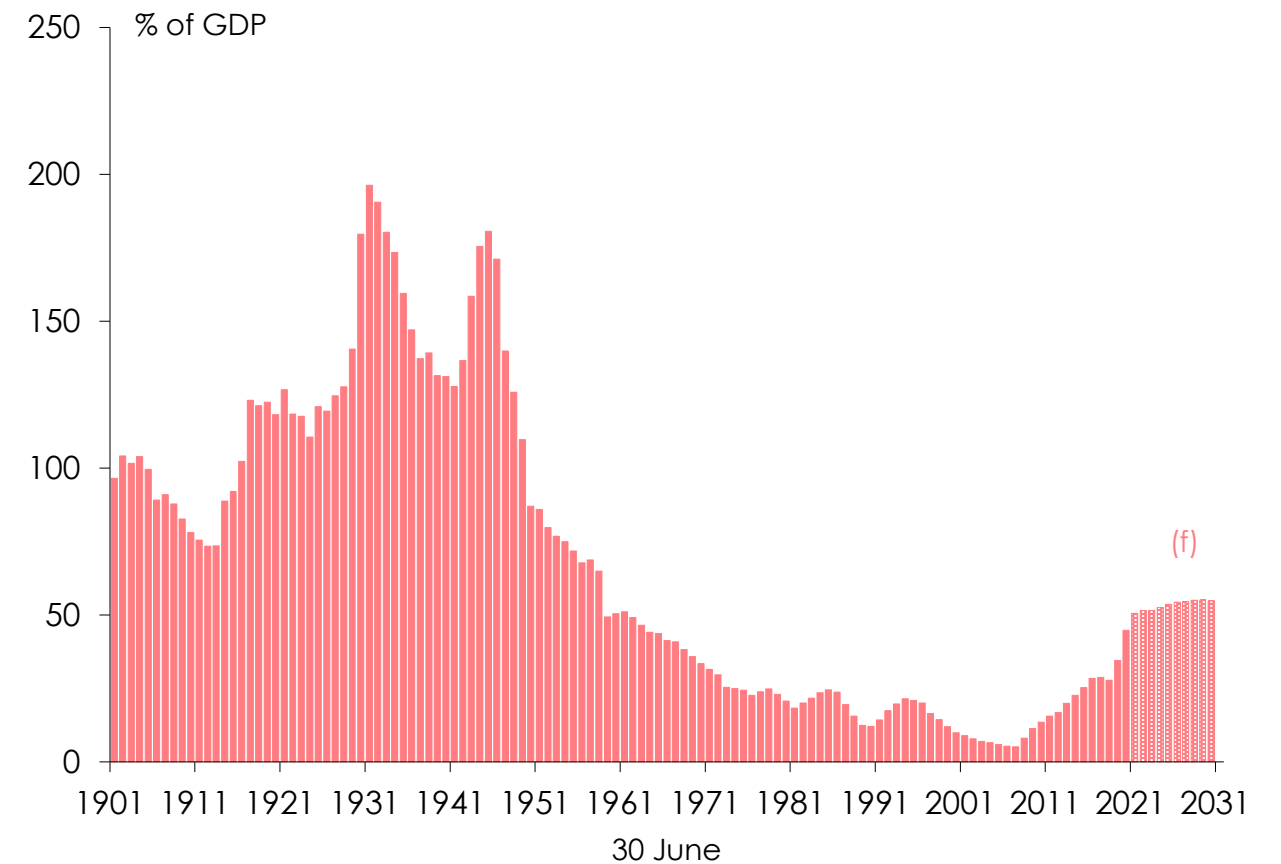
There's no need for undue alarm at the level of debt which will be incurred by the Australian Government

Australian Government gross public debt in \$



- ❑ The Government's gross debt will top \$1 trillion during the 2021-22 financial year, and reach almost \$1¾ trillion by the end of the decade

Australian Government gross debt as a pc of GDP

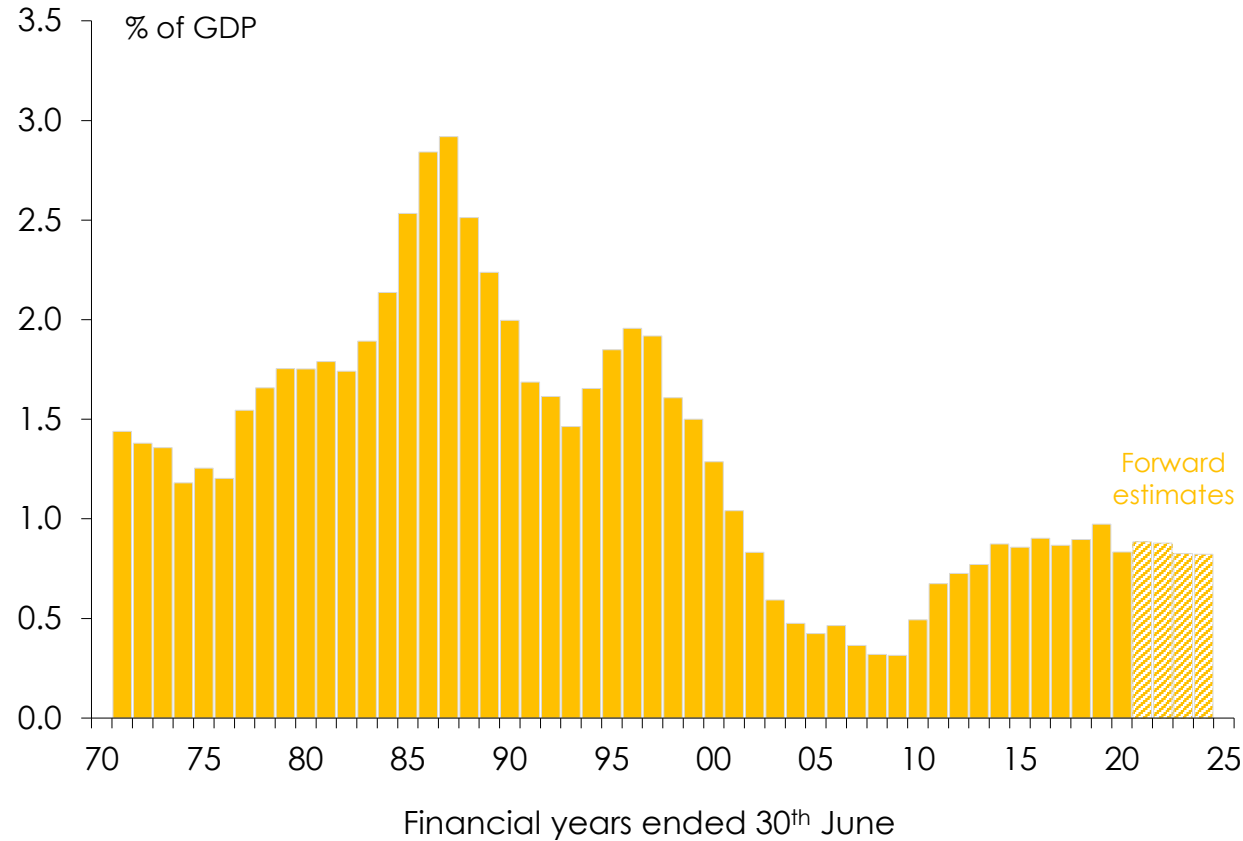


- ❑ However as a percentage of GDP, the Government's gross debt will still be less than it was in any of the first sixty years of Australia's existence as an independent nation

Note: (f) denotes forecasts and projections. Sources: Global Financial Data; Australian Government, 2020-21 [Budget Paper No. 1, Statement No. 3](#).

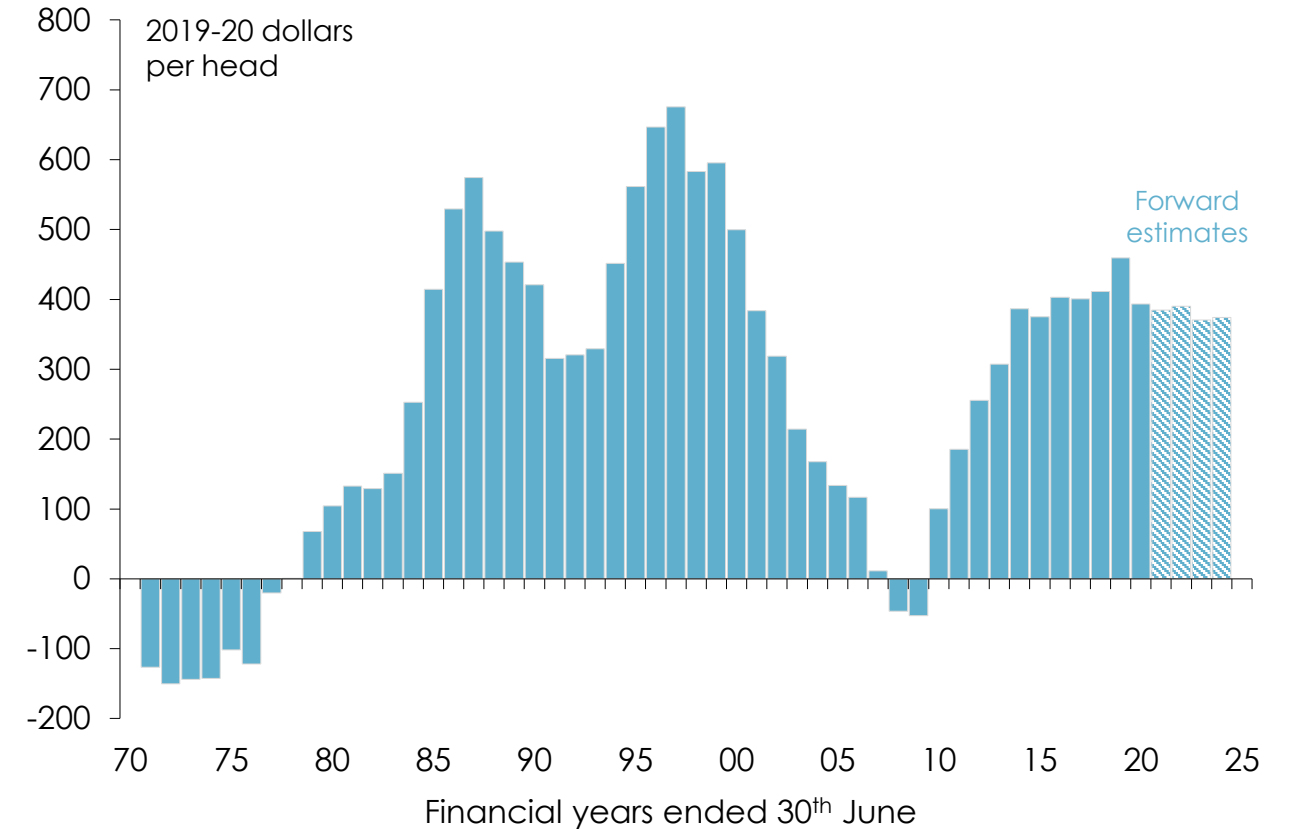
Because interest rates are so low, the cost of servicing the debt which the Government is racking up will be low by historical standards

Australian Government interest payments as a percentage of GDP



❑ As a percentage of GDP, the Government's gross interest payments will be less than they were in the 1970s, 1980s and 1990s, and less than they were in 2017-18 or 2018-19

Australian Government net interest payments per head of population in 2019-20 dollars



❑ Net interest payments per head of population will be less than they were in the second half of the 1980s, between 1993-94 and 1999-2000, or between 2015-16 and 2019-20

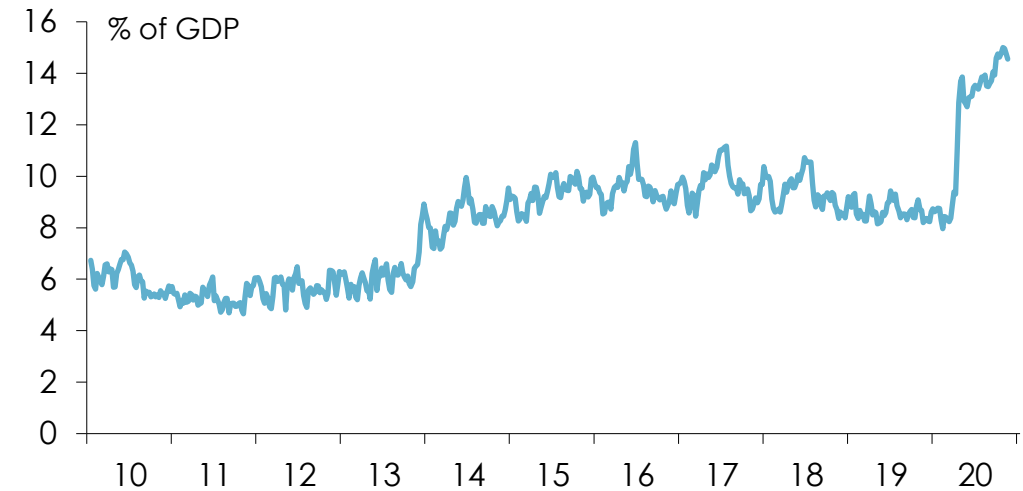
Note: (f) denotes forecasts. Sources: Global Financial Data; Australian Government, 2020-21 [Budget Paper No. 1, Statement No. 11](#); Corinna.

The Reserve Bank has cut interest rates to a record low (and will probably cut them again next month): and it's doing other things too

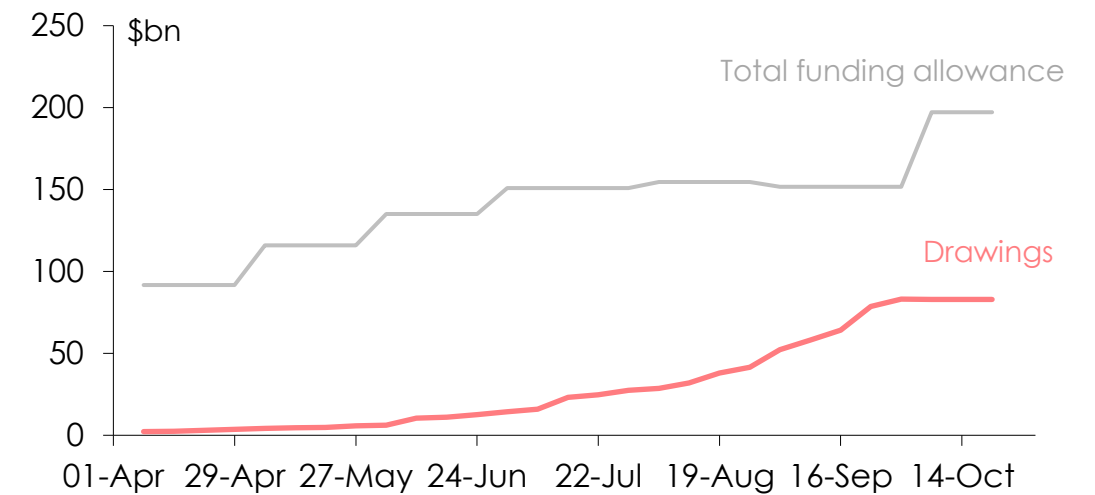
Interest rates



Reserve Bank assets as a pc of GDP



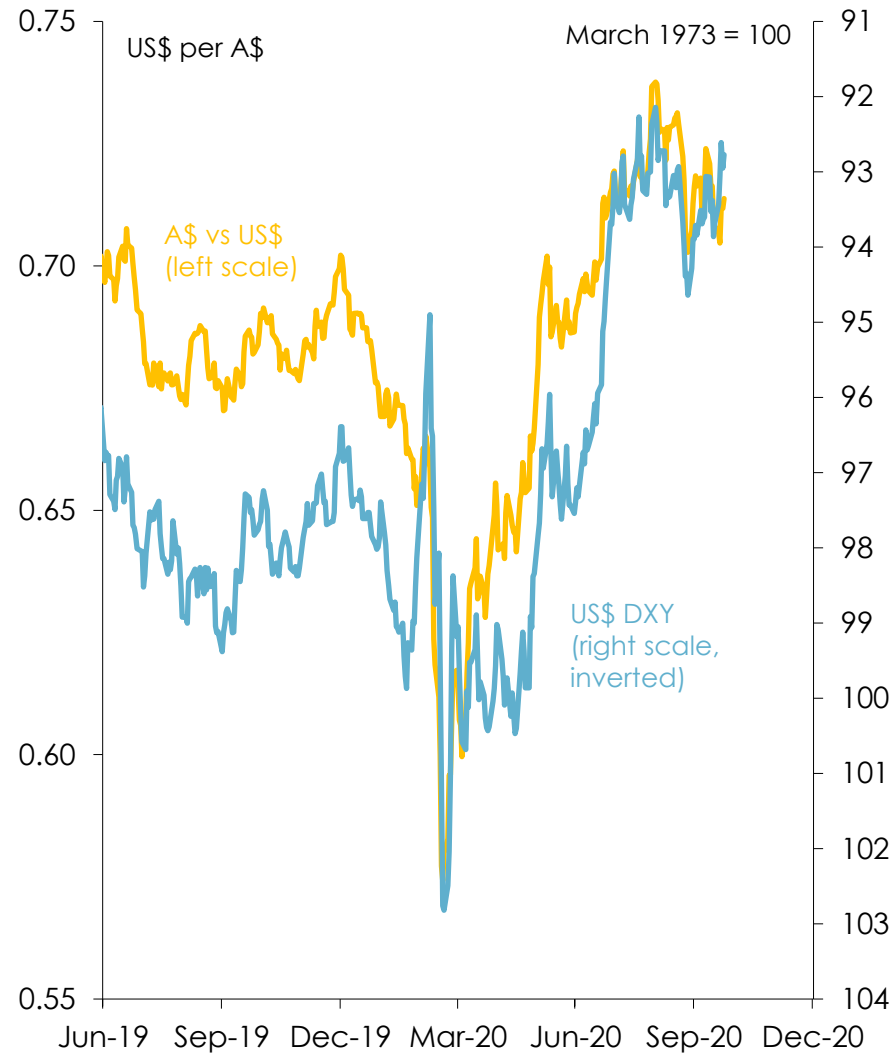
RBA Term Funding Facility



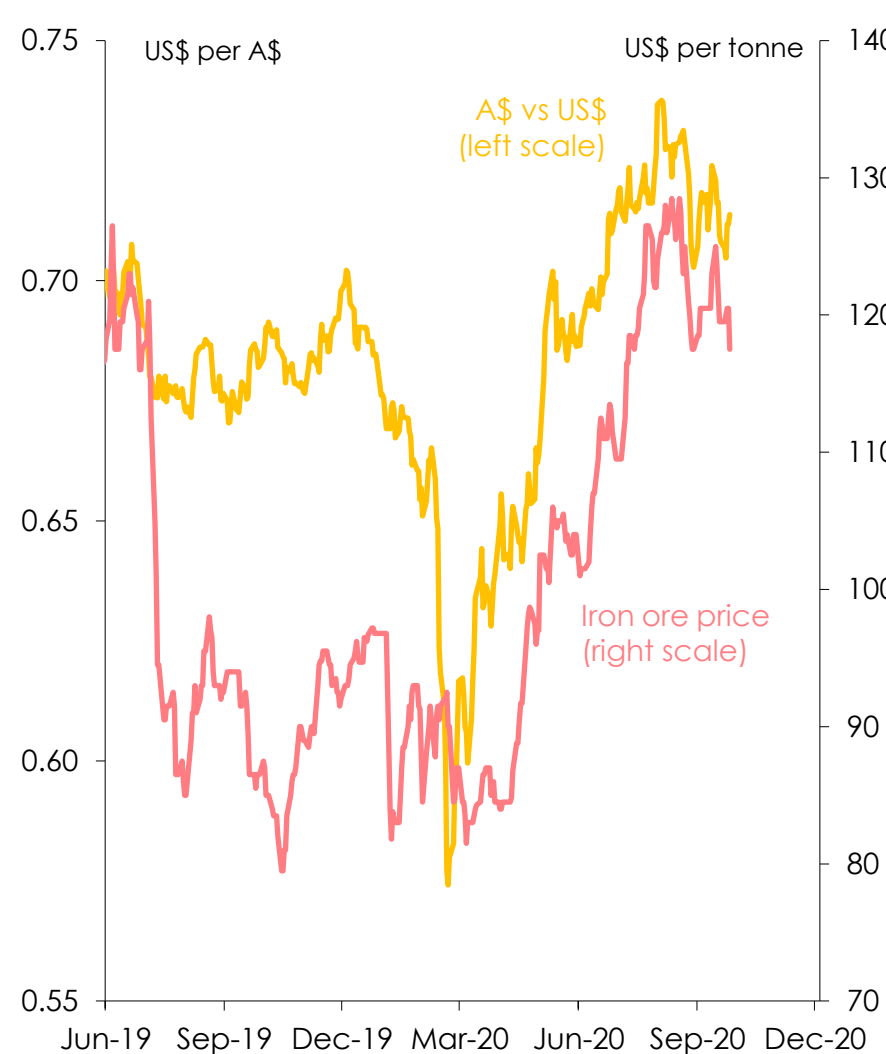
Source: Reserve Bank of Australia, [Statistical Tables](#) A1 and A3. Data up to 24th October.

The A\$ has largely mirrored movements in the US\$ against other currencies, but the iron ore price and investor 'risk appetite' have also played a role

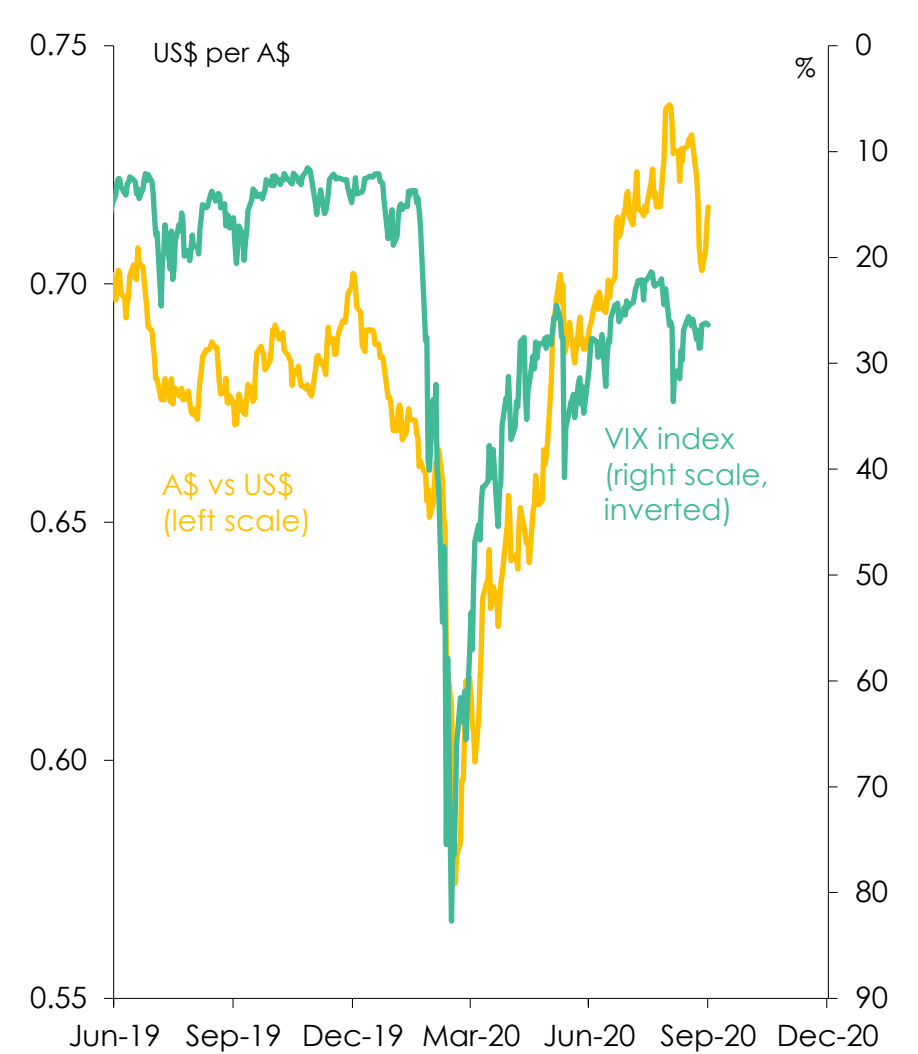
A\$-US\$ and US\$ trade-weighted index



A\$-US\$ and spot iron ore prices



A\$-US\$ and US equity market volatility



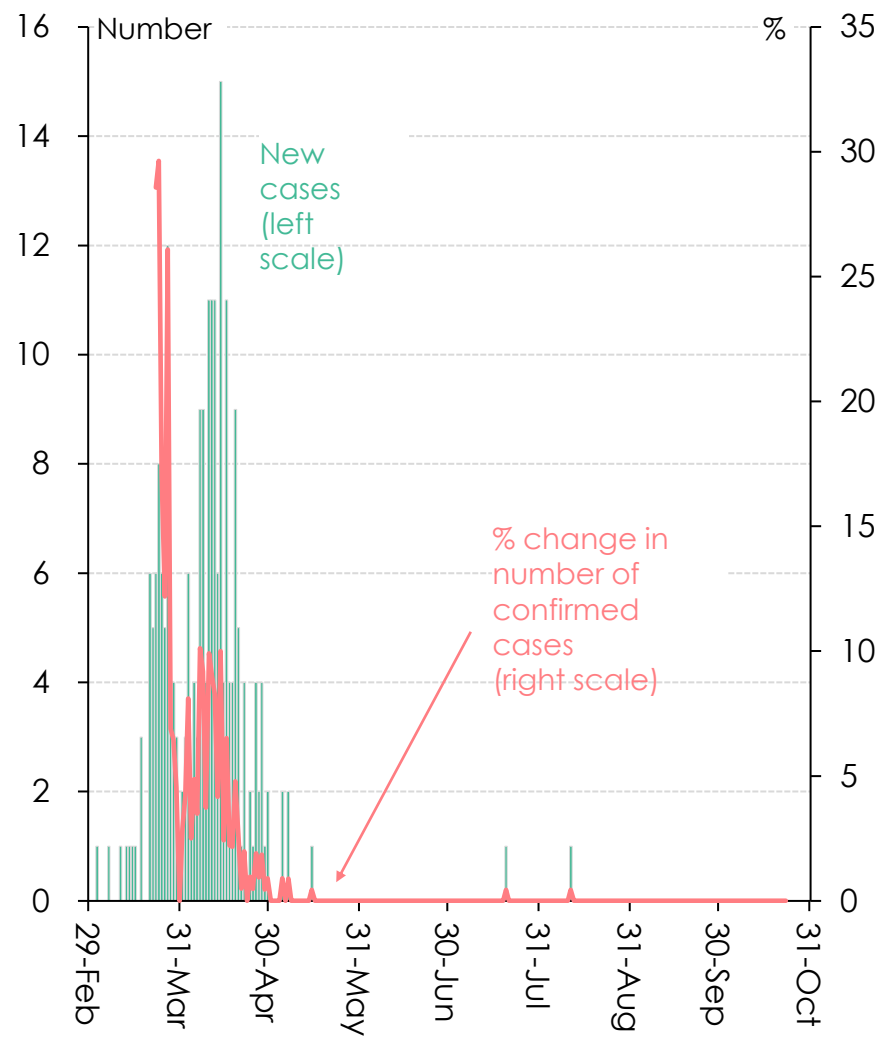
Note: The VIX index is a measure of the implied volatility of S&P500 options and is widely interpreted as an indicator of investor risk appetite or aversion.

Source: Refinitiv Datastream. Data up to 24th October.

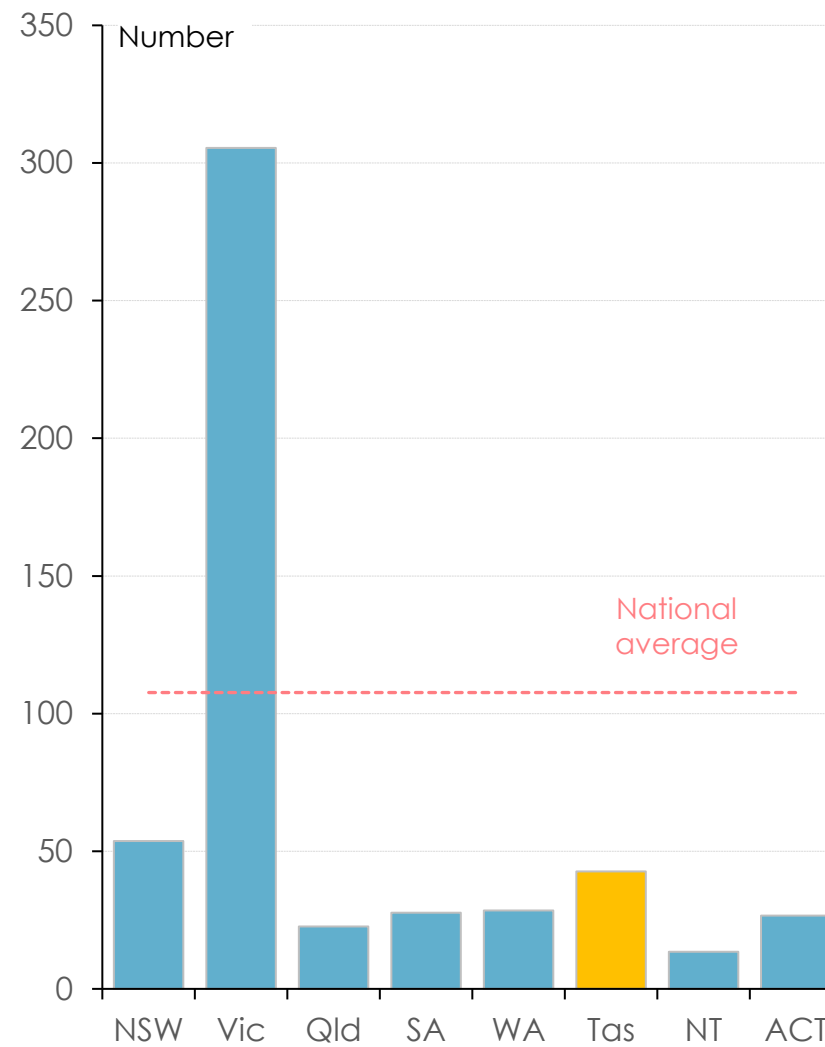
The Tasmanian economy

Since the outbreak at the NW General Hospital Tasmania has done well in containing the virus, but a new challenge awaits when borders re-open

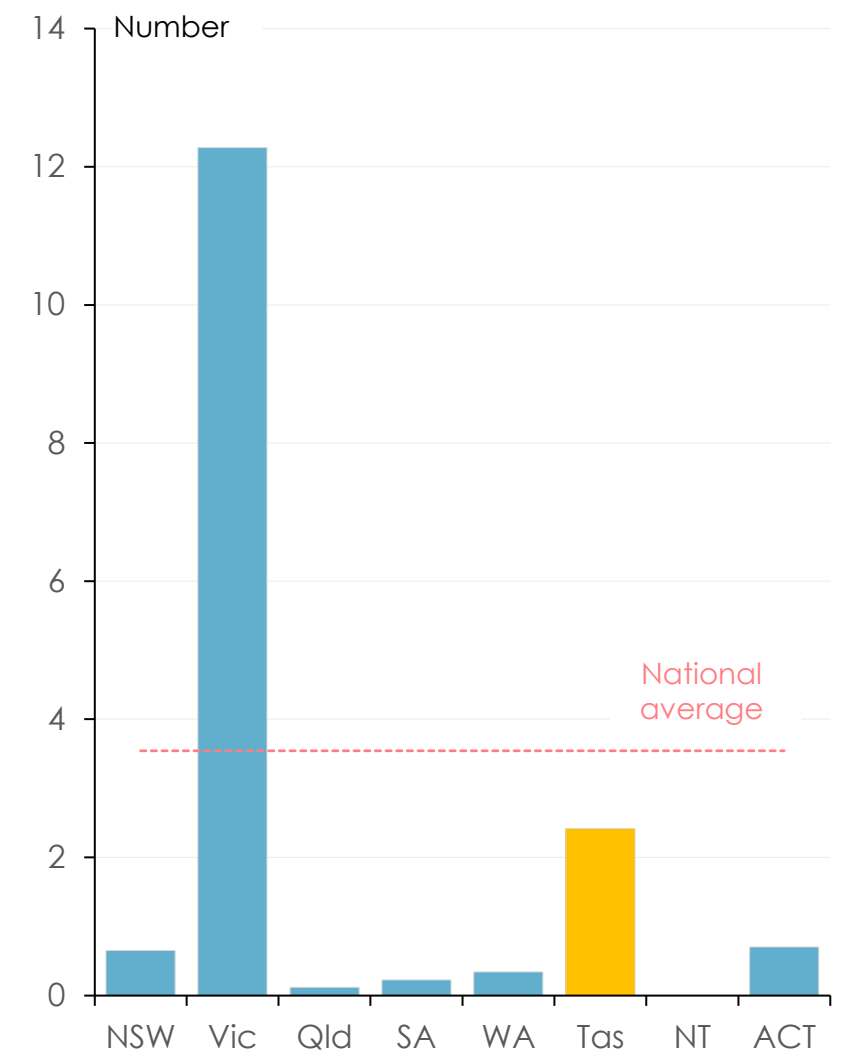
Daily Covid-19 cases, Tasmania



Cases per 100,000 population



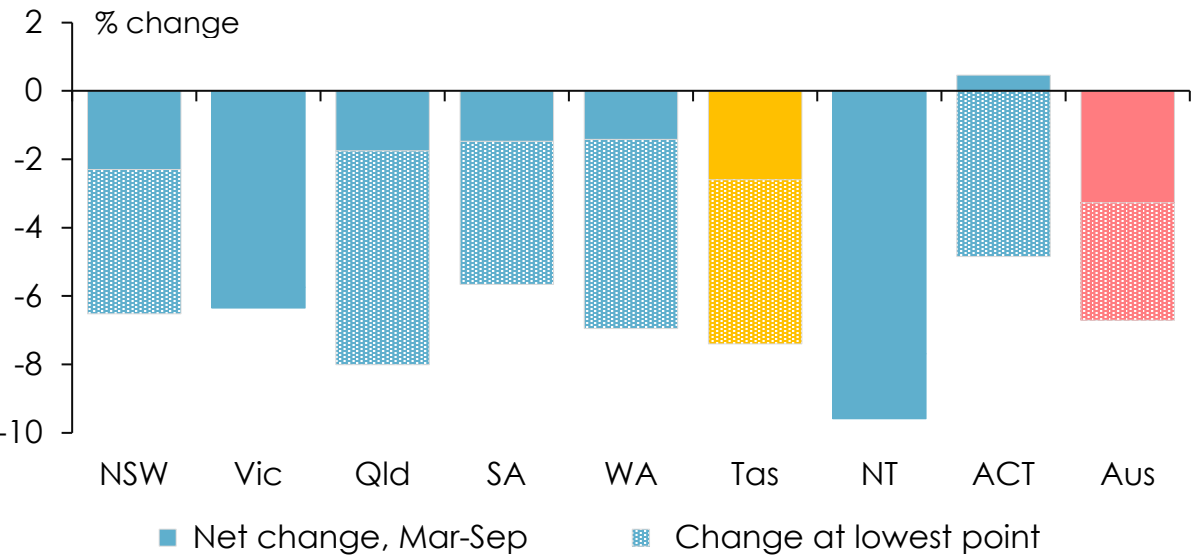
Deaths per 100,000 population



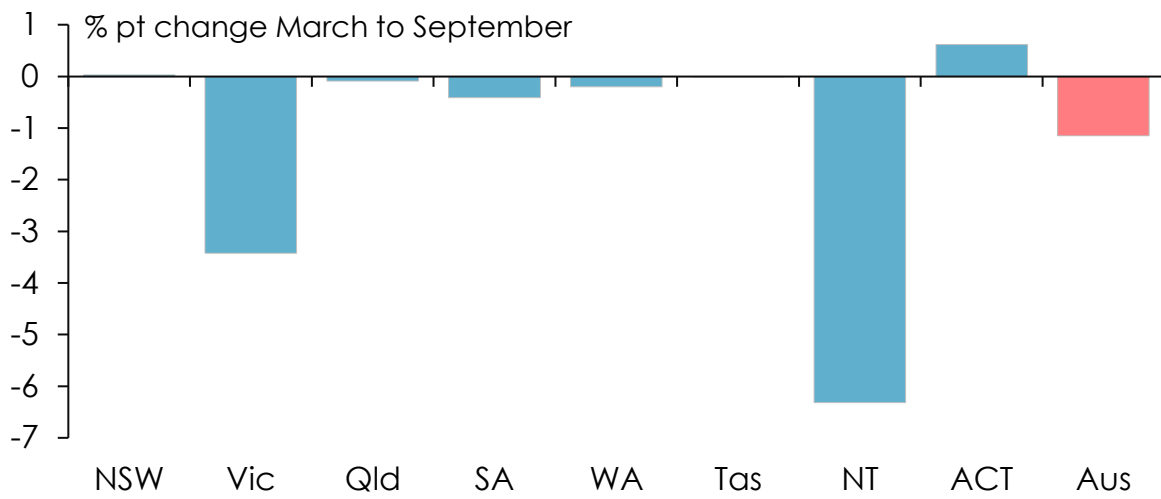
Sources: covid19data.com.au; ABS.

The monthly ABS labour force survey suggests that employment in Tasmania has recovered strongly from the initial sharp falls

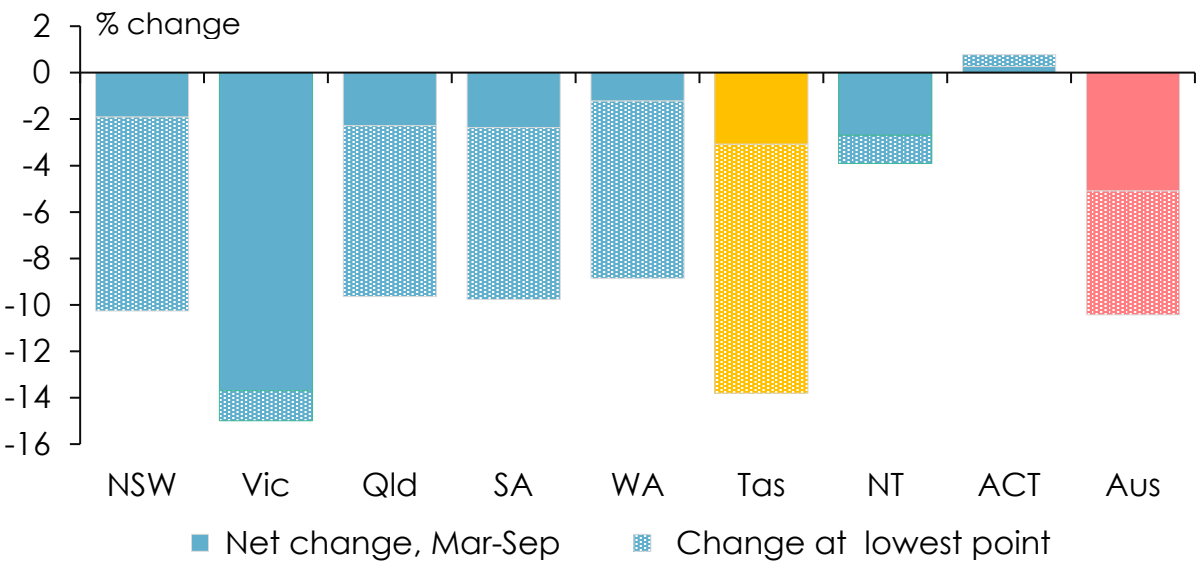
Employment



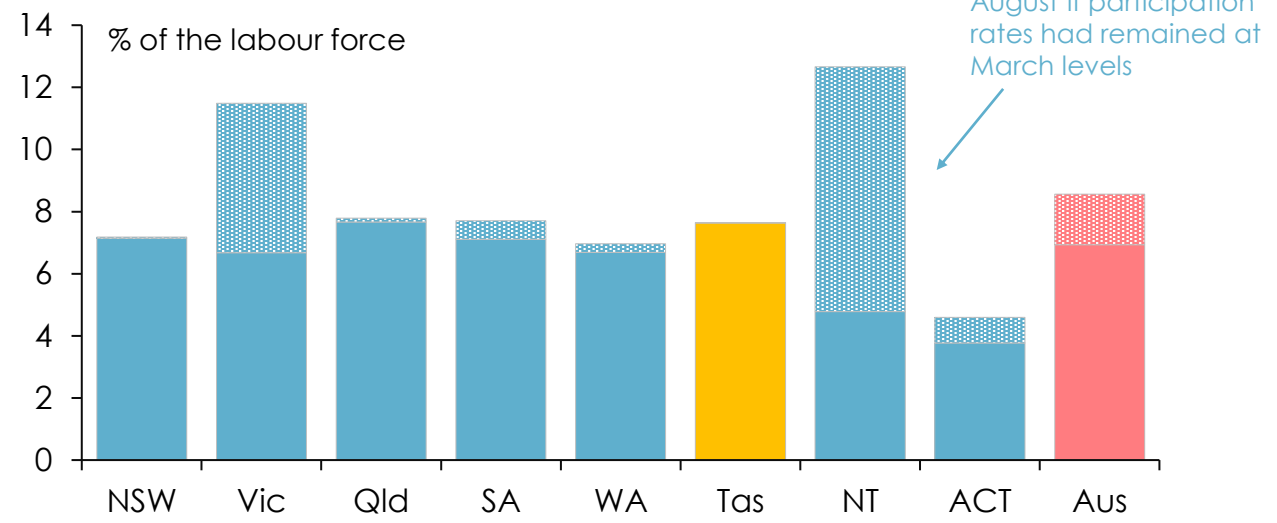
Labour force participation rate



Total hours worked



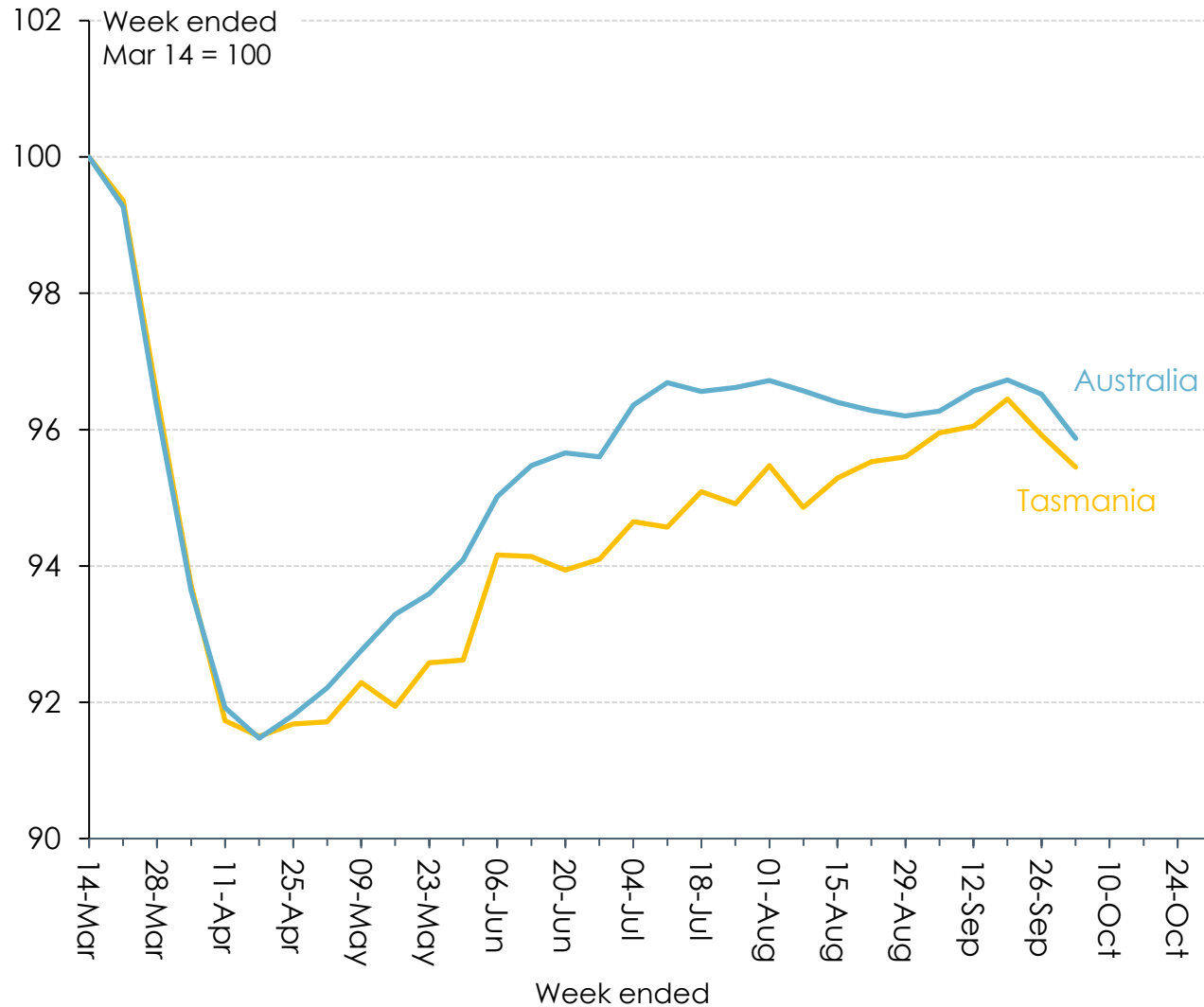
Unemployment rate



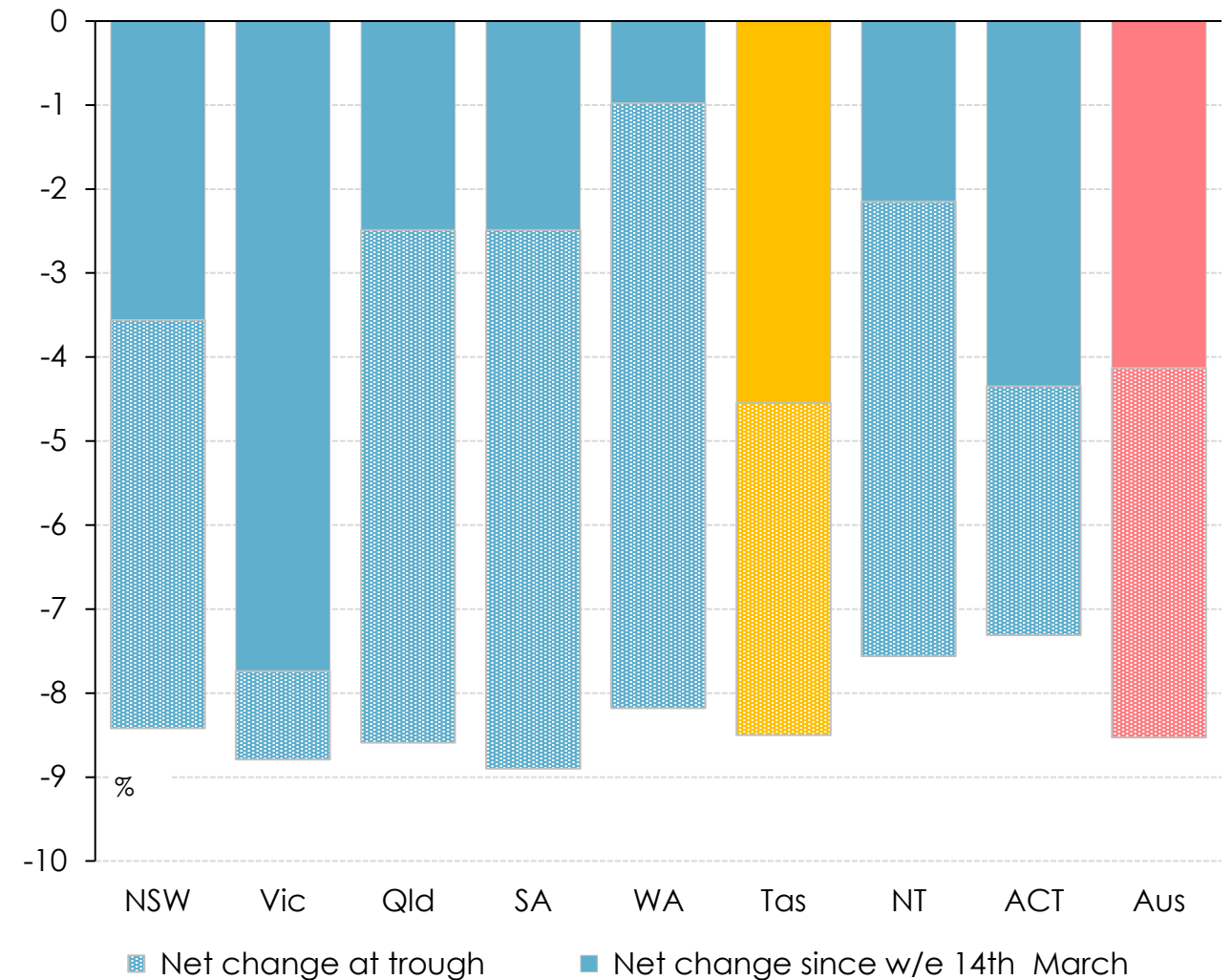
Source: ABS, [Labour Force, Australia](#).

The ABS' weekly payroll jobs series suggests that employment hasn't recovered as rapidly in Tasmania as in other states (except Victoria)

Indexes of number of payroll jobs



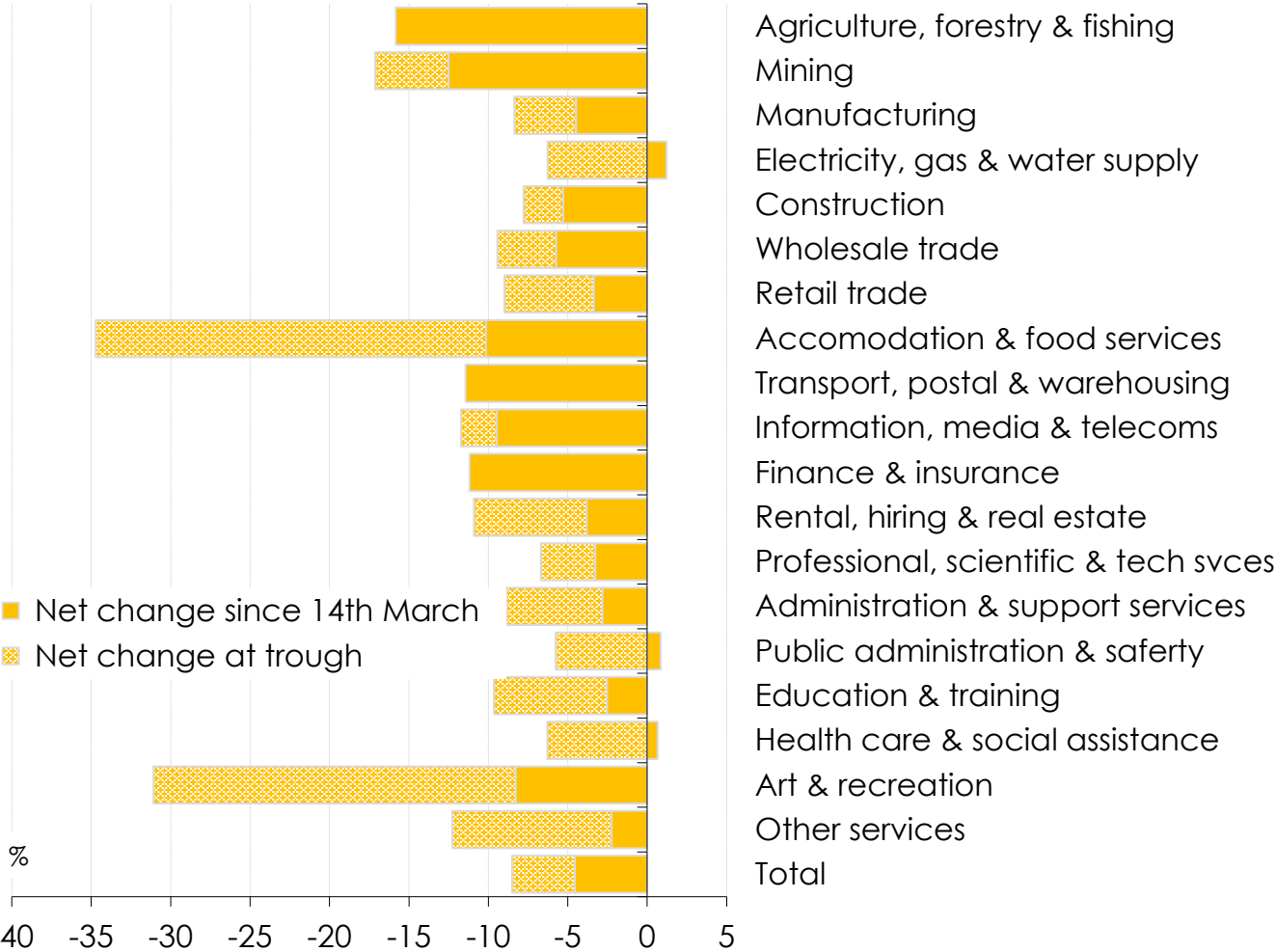
Change in payroll employment since 14th March



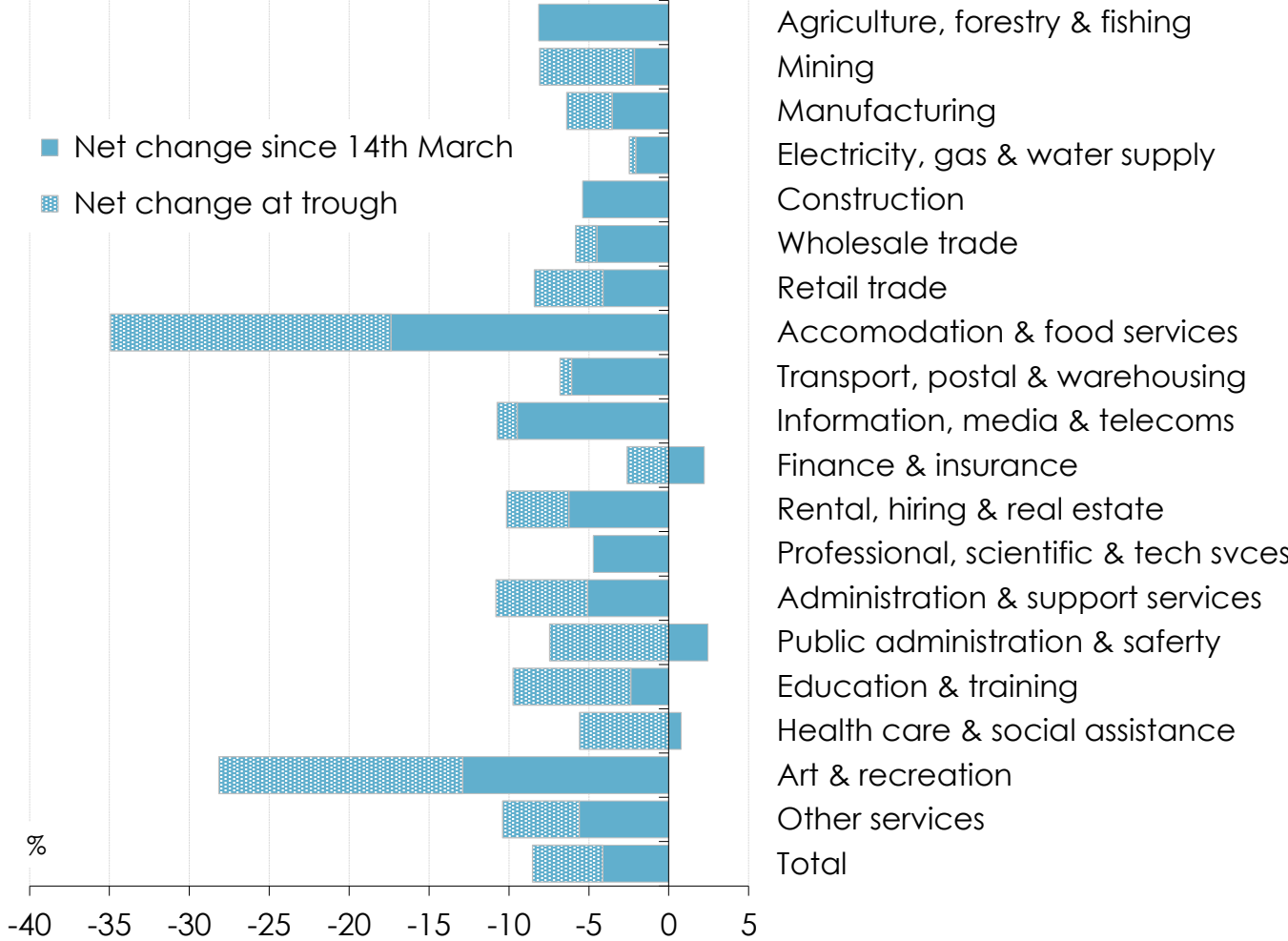
Note: data up to week ended 3rd October. 14th March was the date on which Australia recorded its 100th confirmed case of Covid-19. 'Trough' refers to the week in which employment reached its lowest level, which for Tasmania was the week ended 18th April. Source: ABS.

Differences between Tasmania's employment experience and that of the rest of Australia largely explained by sectoral differences

Net change in payroll jobs since 14th March - Tasmania



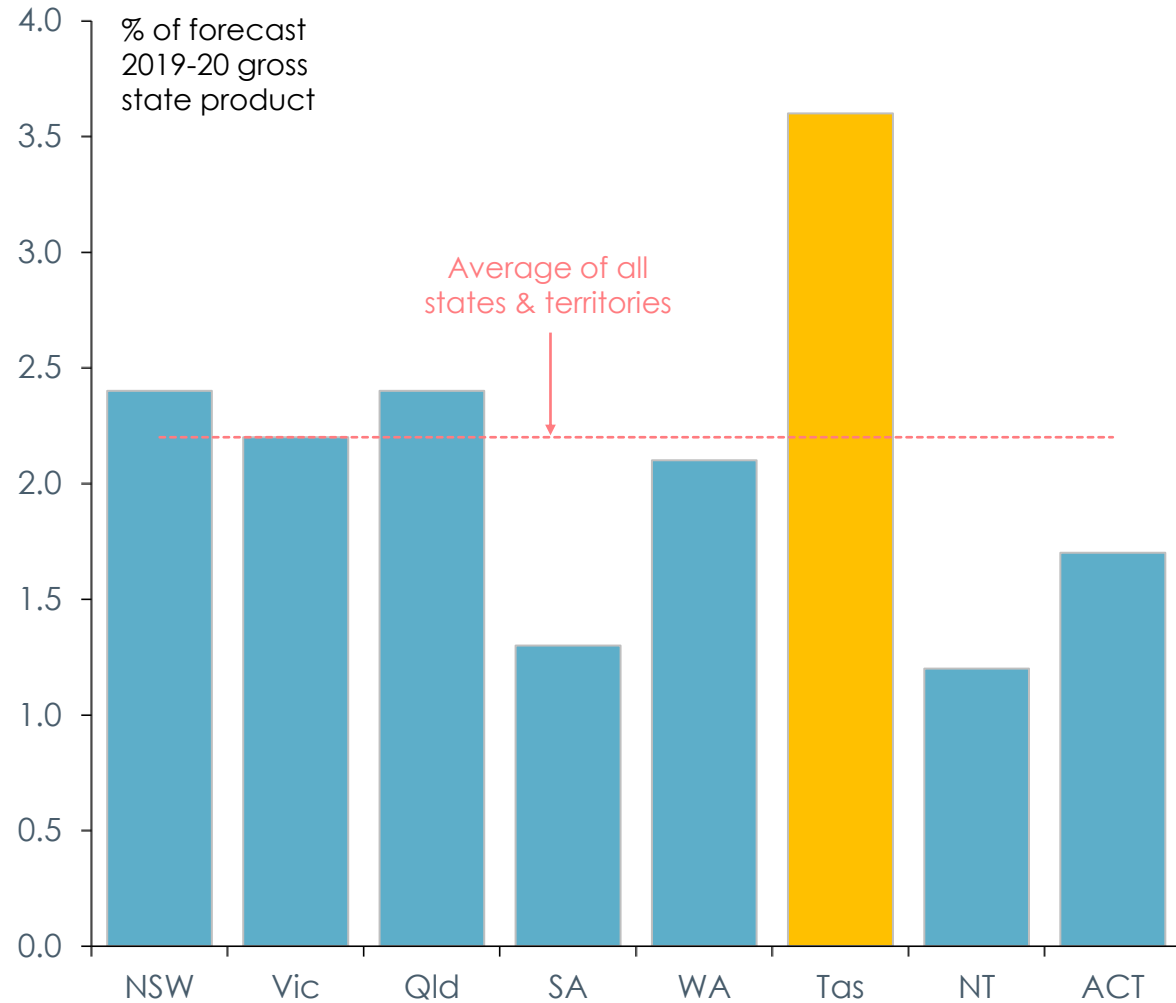
Net change in payroll jobs since 14th March - Australia



Source: ABS. Data up to 3rd October.

The Tasmanian Government has been relatively more generous than other states and territories in supporting households and businesses

State & territory Covid-19 support and response measures as a pc of gross state product



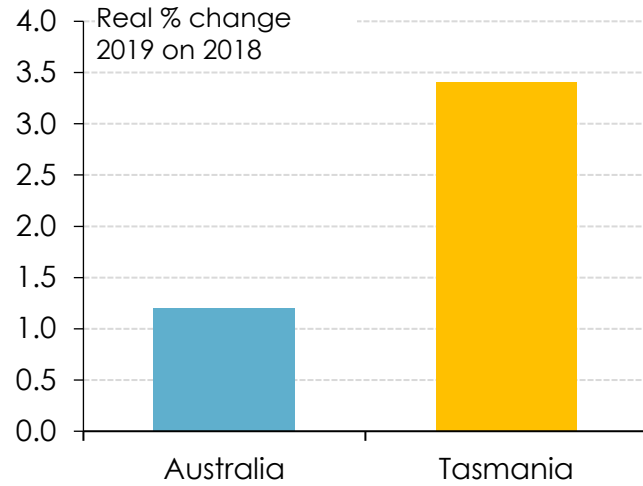
Selected Tasmanian Government economic and social support measures

- ❑ Rent relief for 11,500 social housing tenants (cost ~ \$7mn)
- ❑ Ban on private rent increases until 30th June and 90-day moratorium on evictions
- ❑ \$513K for additional services to youth at risk of homelessness
- ❑ Payments totalling \$221K to 652 temporary visa holders
- ❑ School levy relief to 11,300 eligible parents (cost \$9mn)
- ❑ An additional \$2.2mn for programs supporting victims of family and domestic violence
- ❑ Waiver of 3 months' electricity water bills for around 34,000 small businesses (cost ~ \$50mn)
- ❑ Payroll tax relief for small businesses and employers in the hospitality, tourism and seafood industries (cost \$11½mn to date)
- ❑ Land tax waiver or deferral for commercial property owners impacted by restrictions or experiencing financial hardship
- ❑ Grants and interest free loans to small businesses
- ❑ Loans to Councils for infrastructure projects and rate relief (over \$110mn in loans applied for)
- ❑ Taxi licence fees waived for 2020-21 (cost \$240K)
- ❑ Subsidized training for 150 Tasmanians who have lost jobs

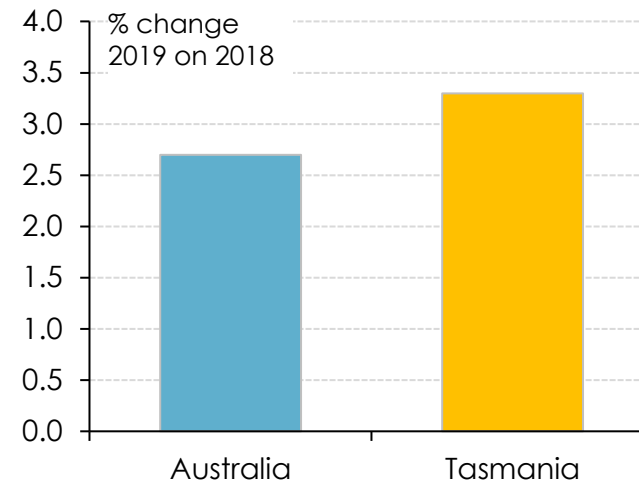
Sources: Commonwealth Treasury, 6th August 2020; Australian Financial Review, 14th August 2020; ABS; Tasmanian Government, Social and Economic Support Measures Update, 11th May 2020.

Tasmania's economy was doing well, by most measures, heading into this downturn – but that doesn't guarantee a more rapid recovery

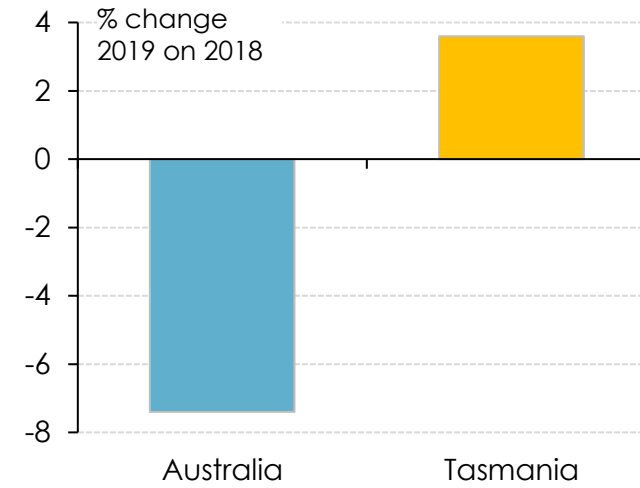
State final demand



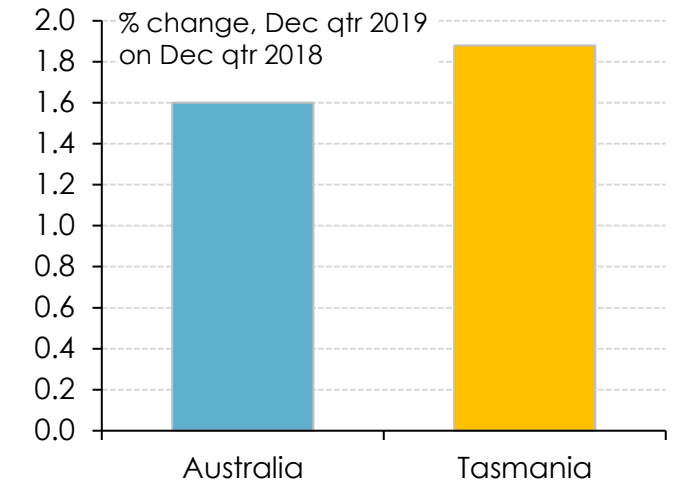
Retail sales



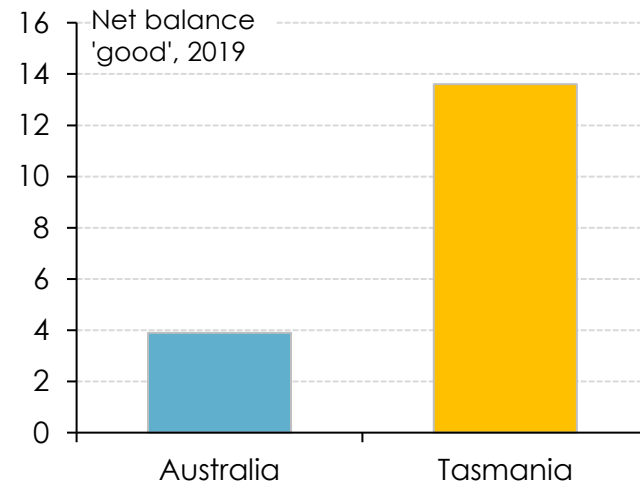
Dwelling approvals



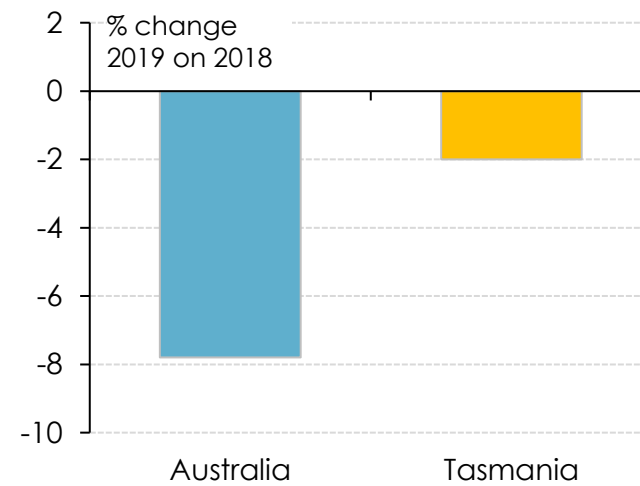
Employment



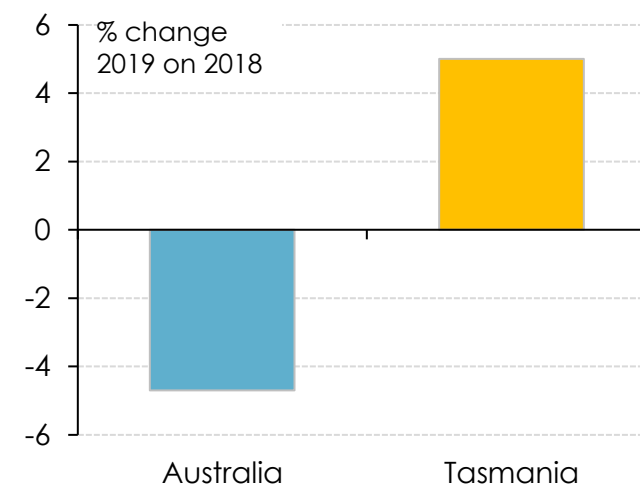
Business conditions



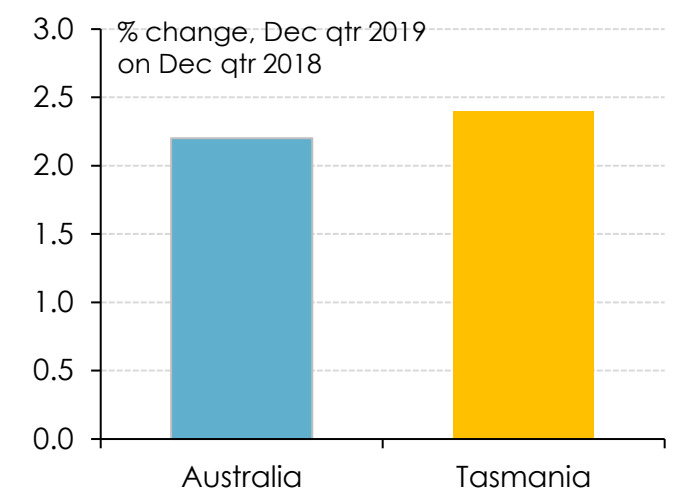
Car sales



House prices



Wages

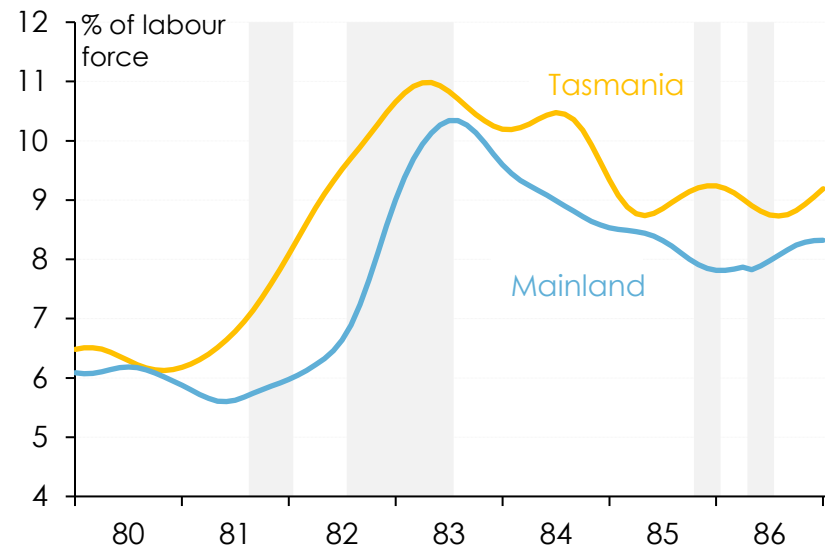
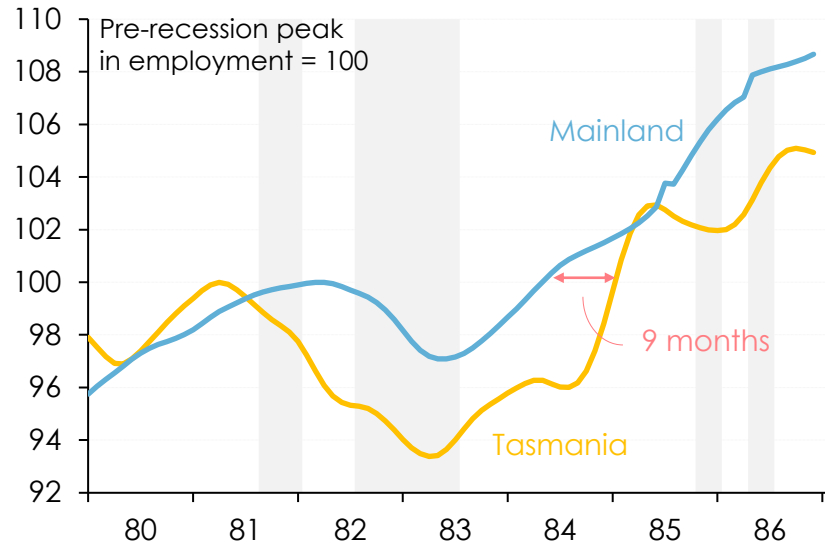


Note: 'State final demand' is the sum of spending by households, businesses and governments Sources: ABS; NAB; FCAI; CoreLogic.

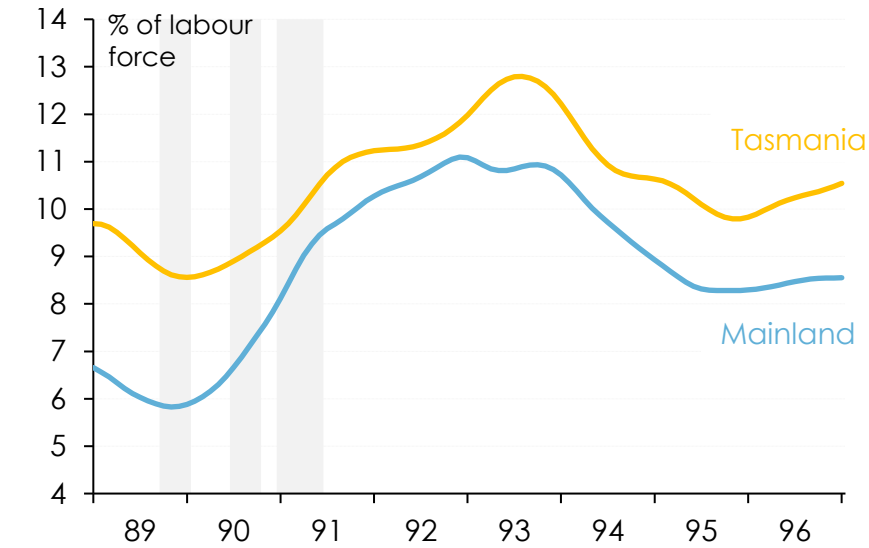
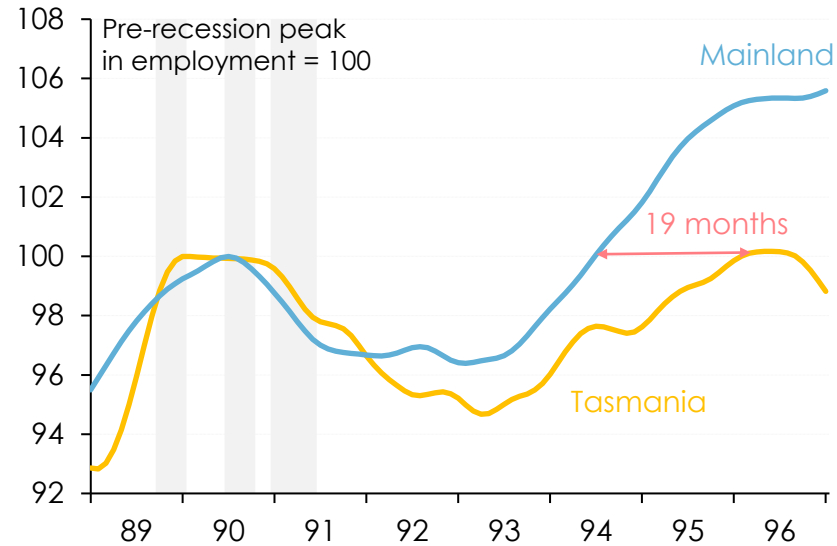
Tasmania has historically always fared worse than the mainland during recessions, regardless of how we were doing beforehand

Employment and unemployment in Tasmania vs the mainland during recessions

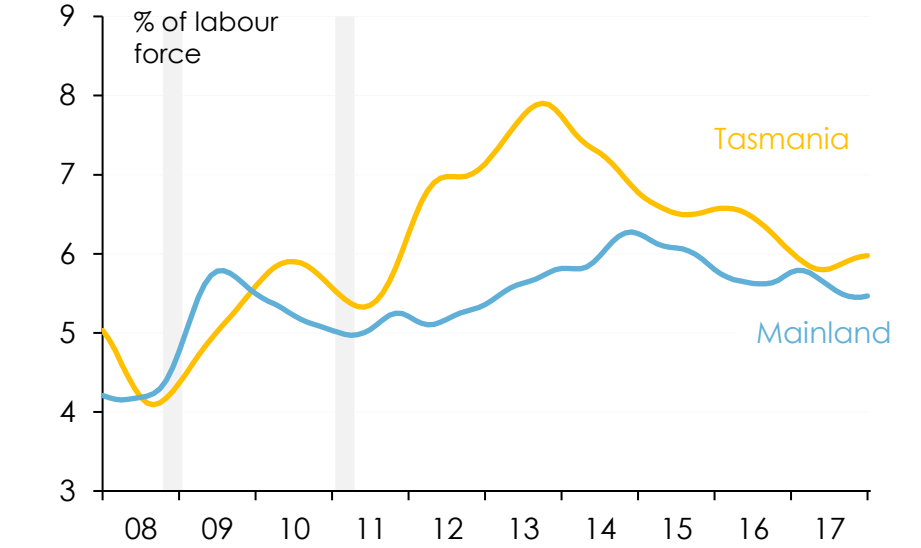
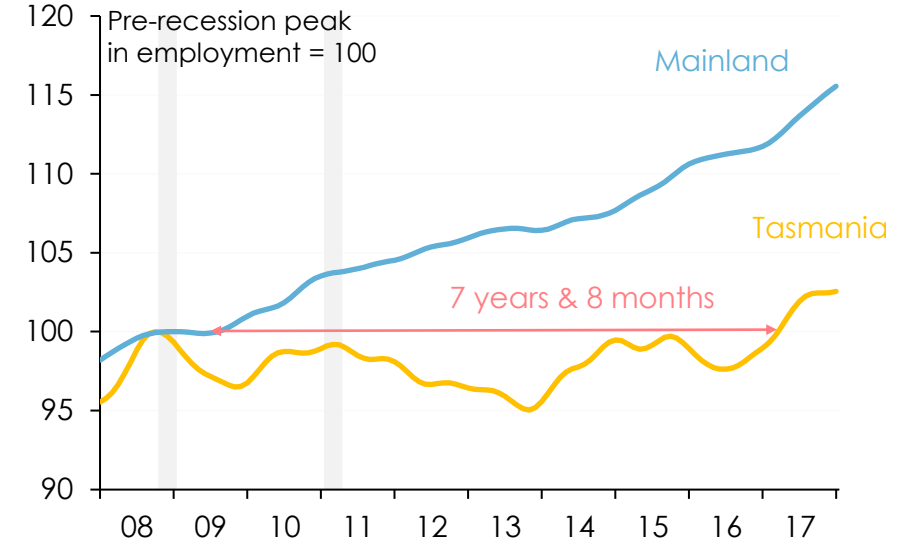
Early 1980s recession



Early 1990s recession



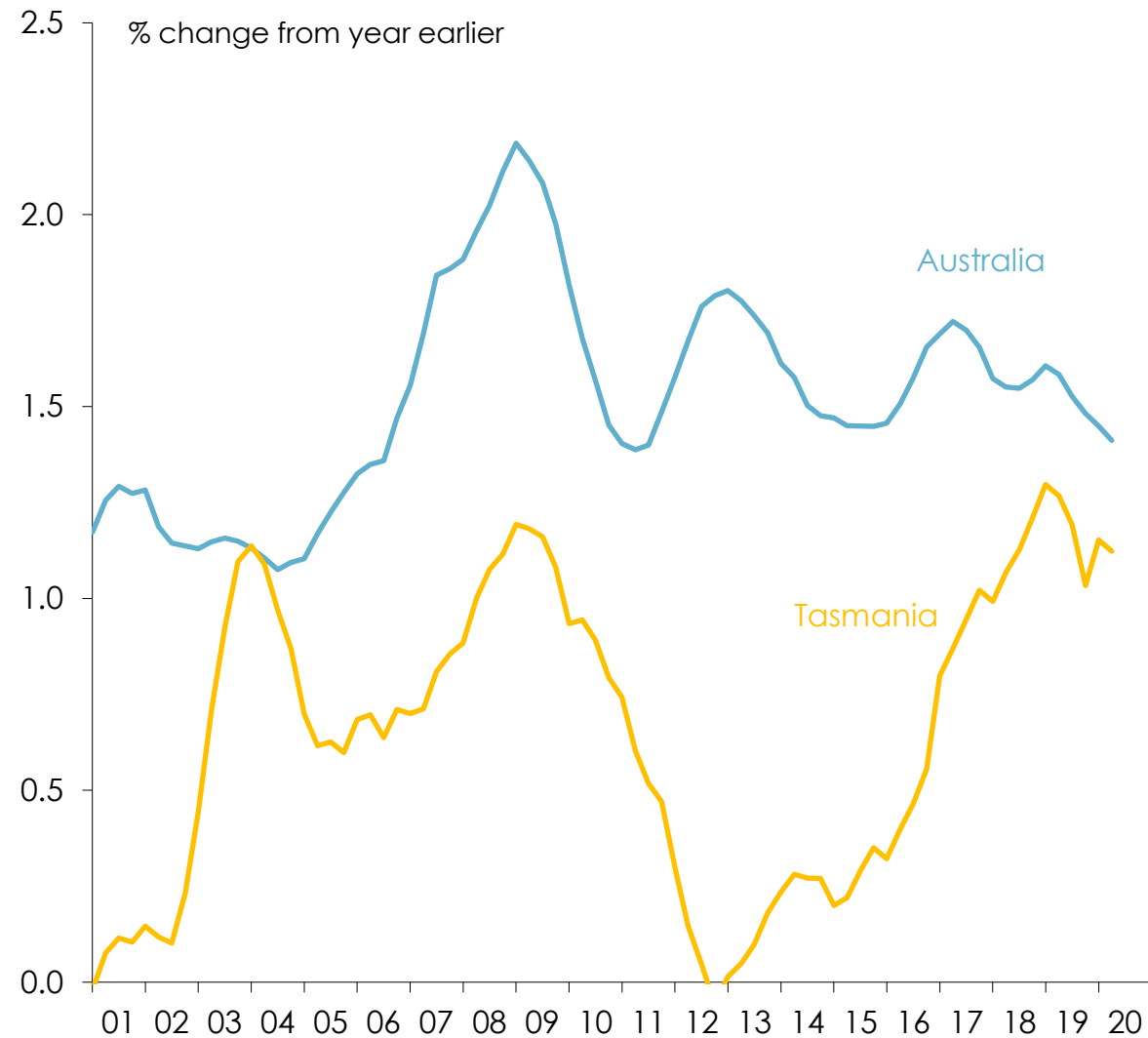
Global financial crisis



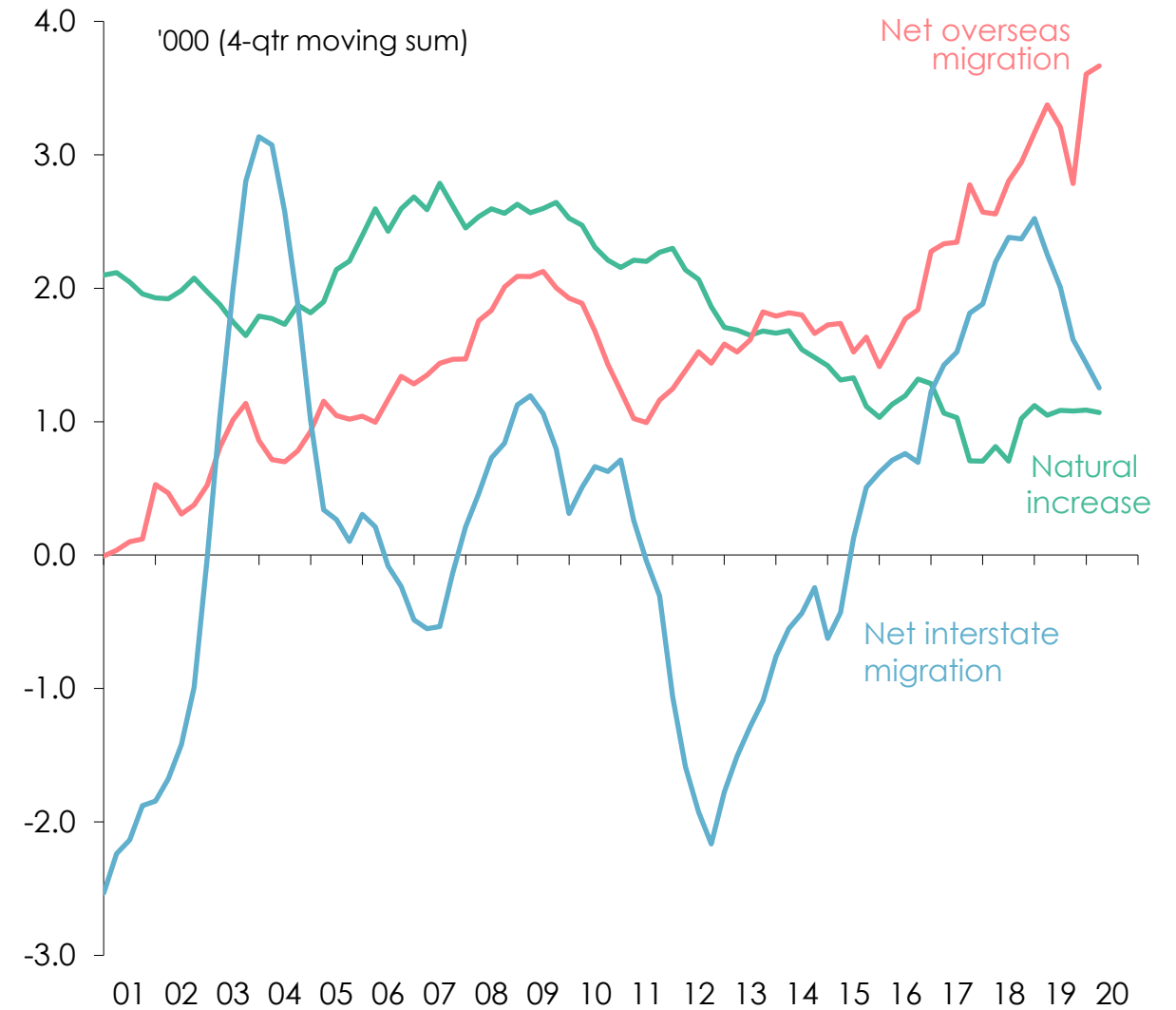
Note: Shaded areas denote quarters of negative growth in real GDP. The number of years or months (in pink) are the time differences between when mainland employment regained its pre-recession peak level, and the same milestone being achieved in Tasmania. Data are expressed in trend terms.
Source: ABS; Corinna.

The improvement in Tasmania's economic performance in recent years owed a lot to the pick-up in migration – will that resume, and when?

Population growth, Tasmania and Australia



Sources of Tasmania's population growth



Note: Data are up to March 2020. The 'causality' between net migration to Tasmania (from overseas or interstate) and economic performance runs in both directions. Source: ABS.

Federal Treasury thinks interstate migration to Tasmania will bounce back reasonably quickly, but only for two years

Federal Treasury Budget forecasts for net overseas and interstate migration

Table A.5: Net overseas migration, for years ending 30 June

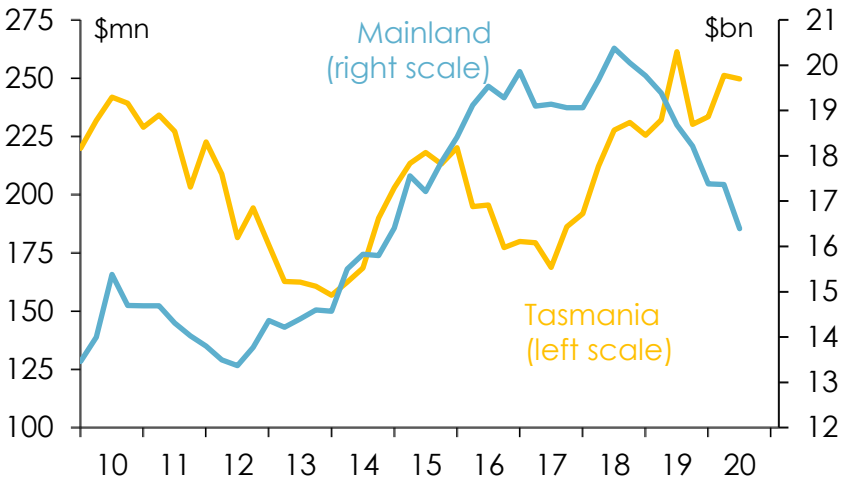
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Net overseas migration, Australia	239,700	154,100	-71,600	-21,600	95,900	201,100

Table A.6: Net interstate migration by state, for years ending 30 June

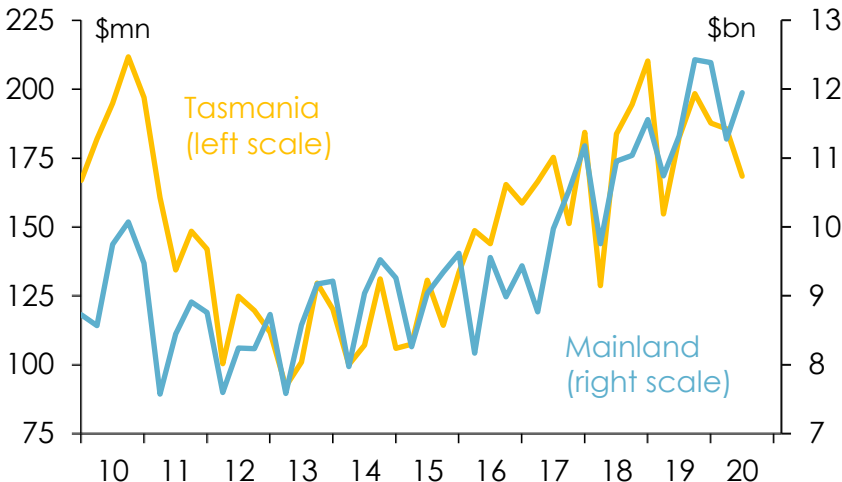
	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
2018-19	-22,100	12,200	22,800	-6,500	-4,000	2,000	-200	-4,400
2019-20	-21,000	11,600	21,700	-6,100	-3,800	1,900	-200	-4,200
2020-21	-14,300	-1,200	22,000	-3,700	-2,200	2,200	300	-3,100
2021-22	-15,500	-1,300	23,800	-4,000	-2,300	2,300	400	-3,300
2022-23	-17,000	1,800	21,300	-2,300	-3,000	1,200	300	-2,400
2023-24	-18,600	5,000	18,900	-500	-3,600	0	200	-1,400

Tasmania has a good pipeline of housing and infrastructure construction work, but non-residential building could be a soft spot

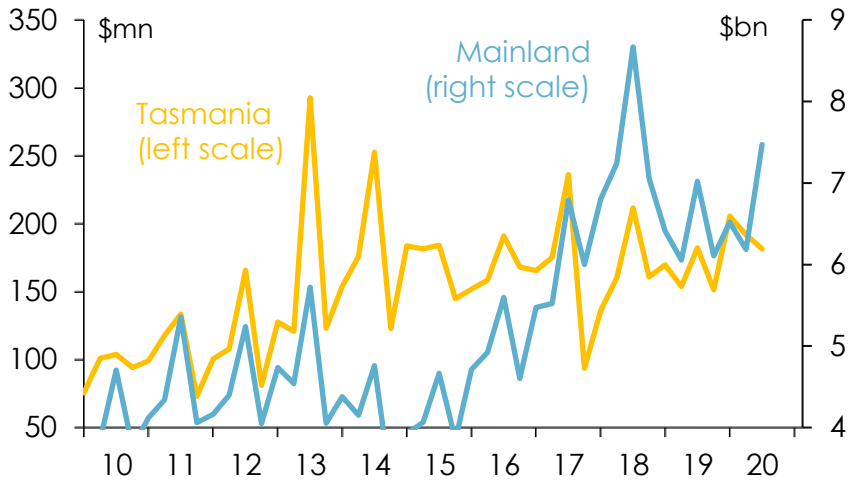
Residential building work done



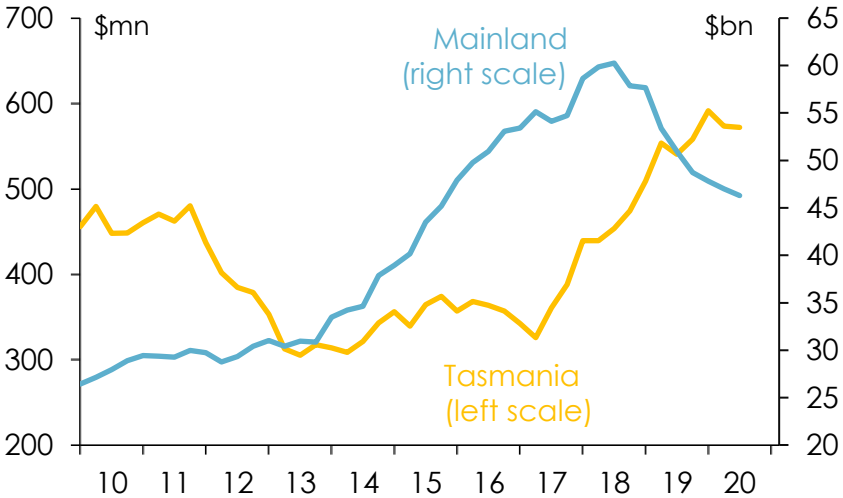
Non-residential building work done



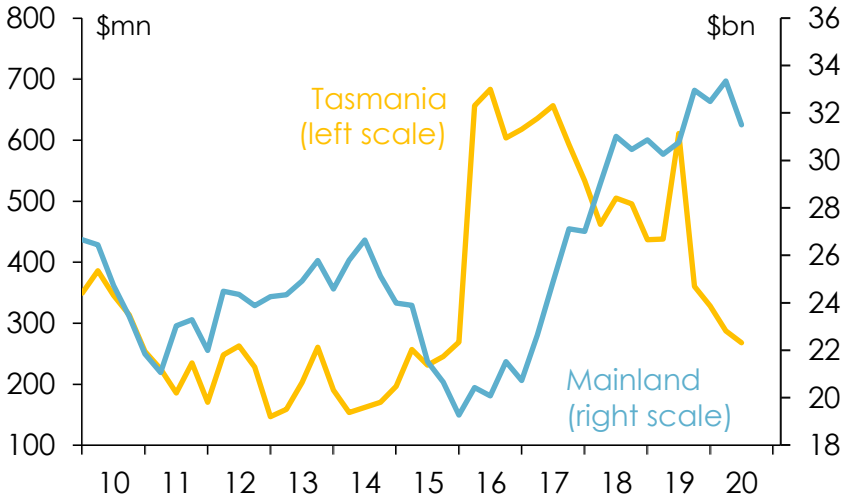
Infrastructure construction work done



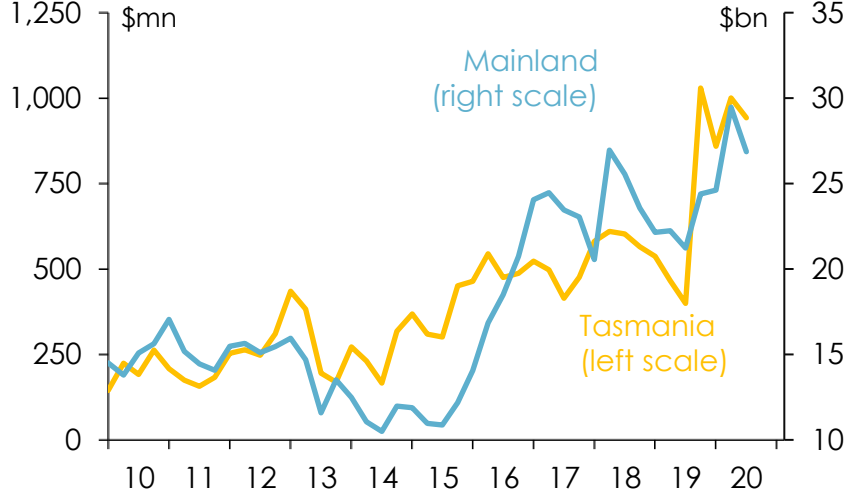
Residential building 'pipeline'



Non-residential building 'pipeline'



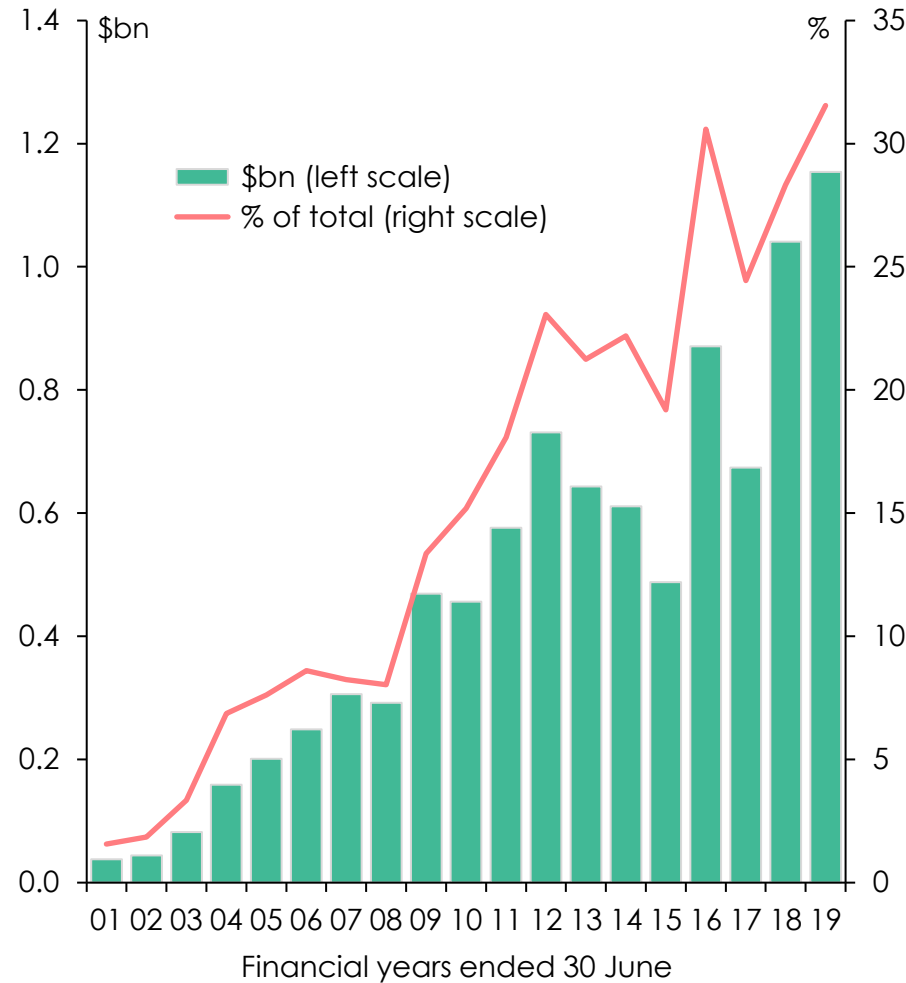
Infrastructure construction 'pipeline'



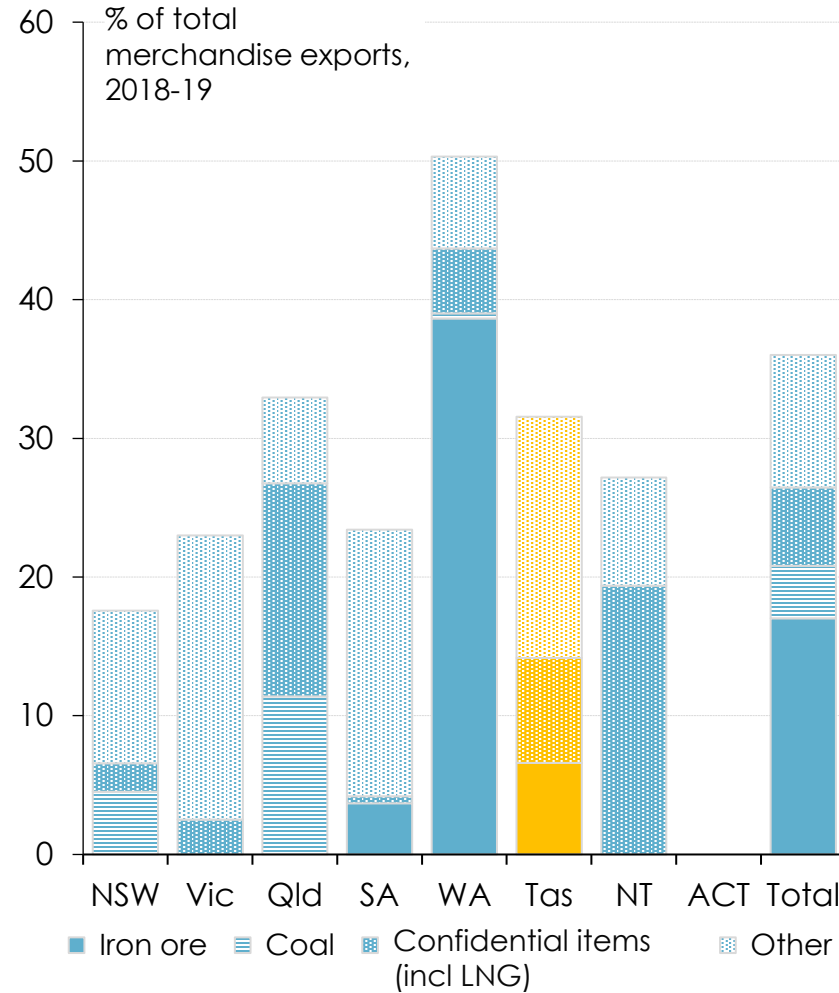
Note: 'infrastructure construction' is engineering construction work done by or for the public sector, excluding electricity and heavy industry. Source: ABS.

China takes almost 30% of Tasmania's exports, although that still represents less than 5% of Tasmania's gross product

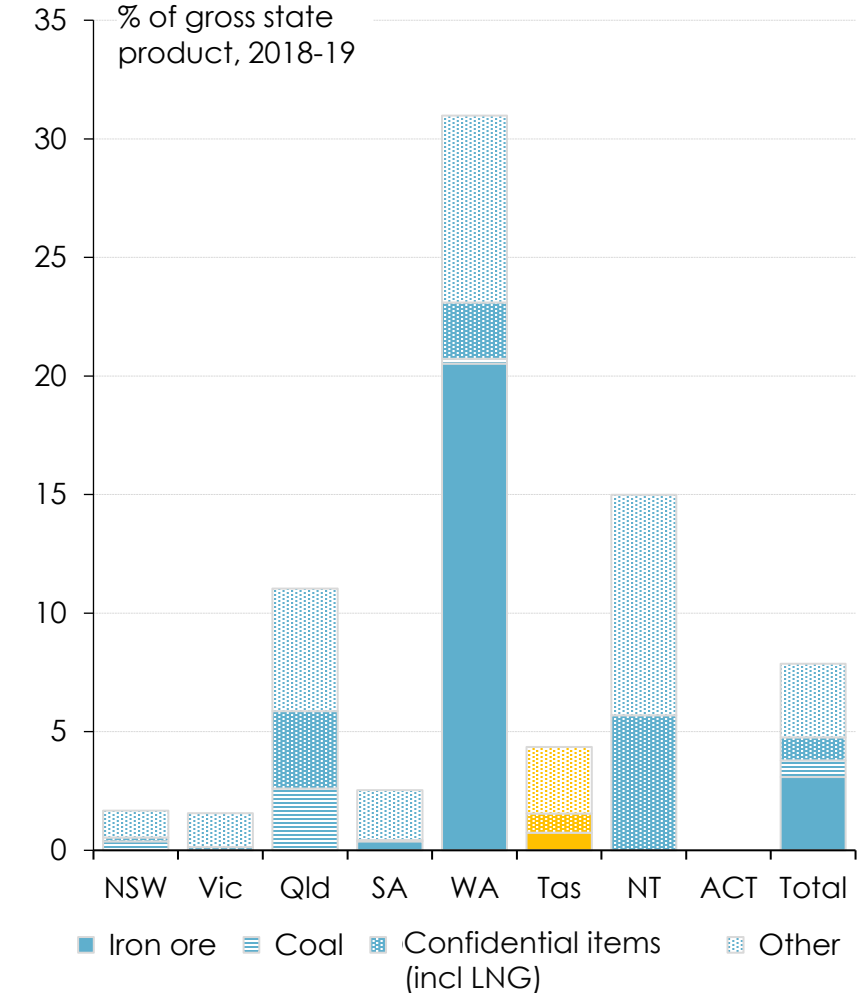
Tasmania's goods exports to China



Goods exports to China as a pc of exports of goods



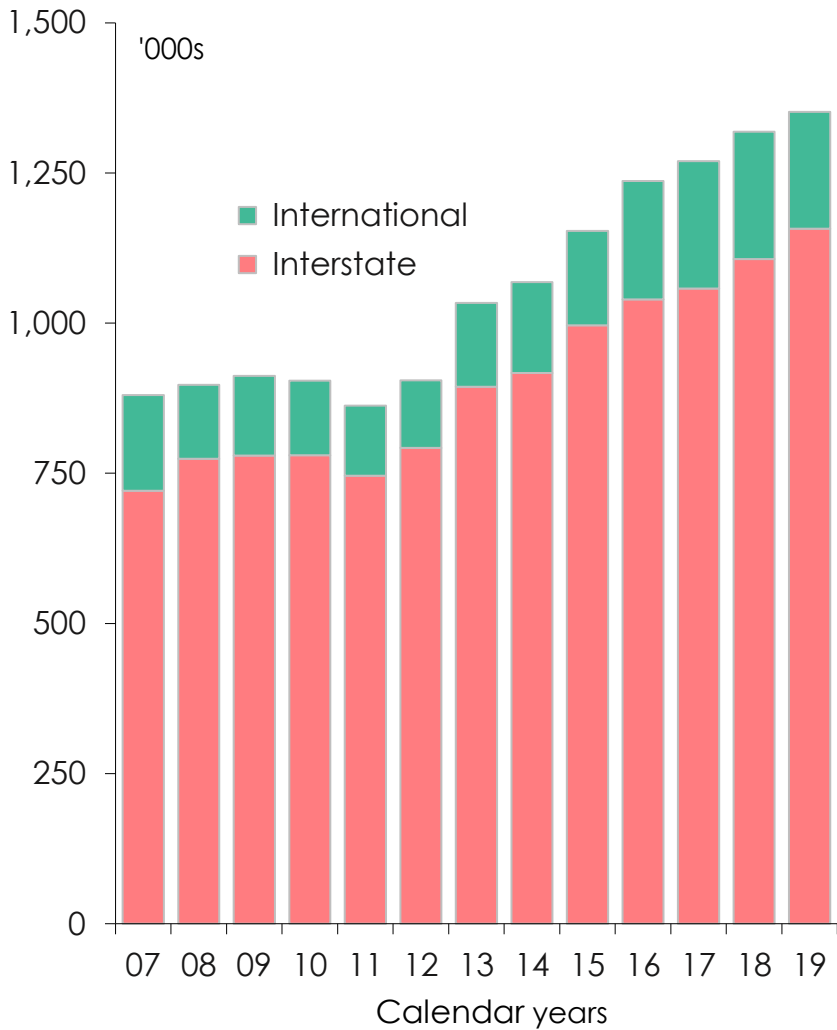
Goods exports to China as a pc of gross state product



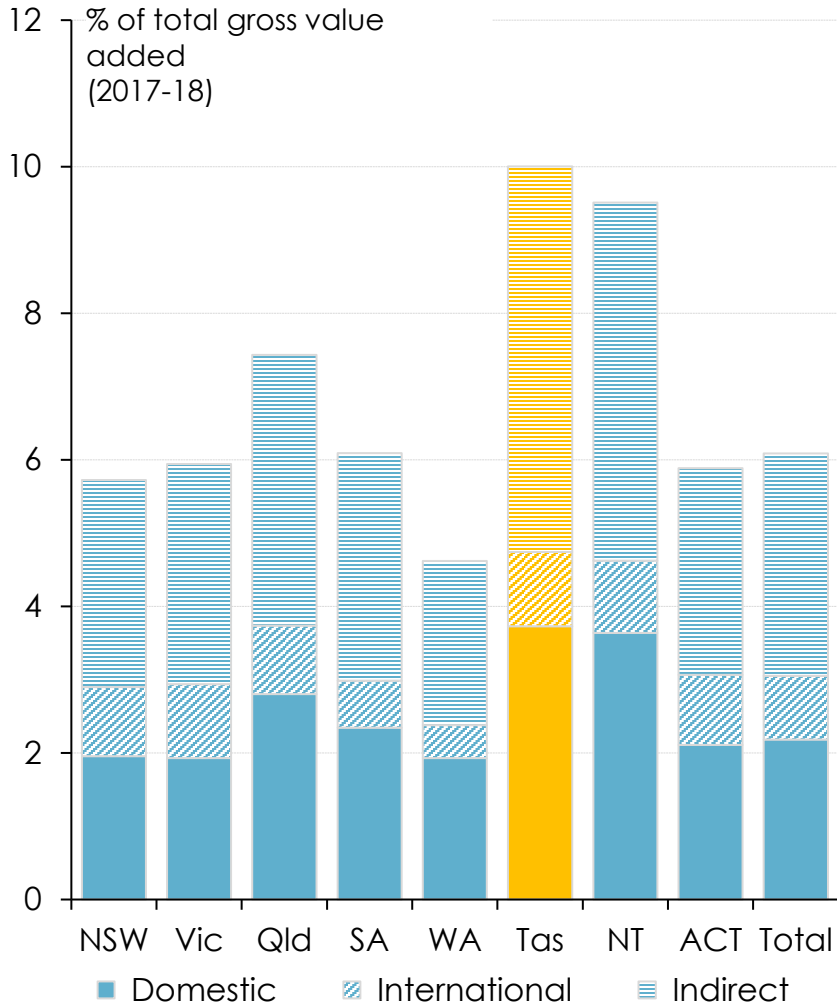
Sources: ABS; Department of Foreign Affairs & Trade.

Tourism is a big part of Tasmania's economy, and had slowed over the past two years – have we become 'too dependent' on tourism?

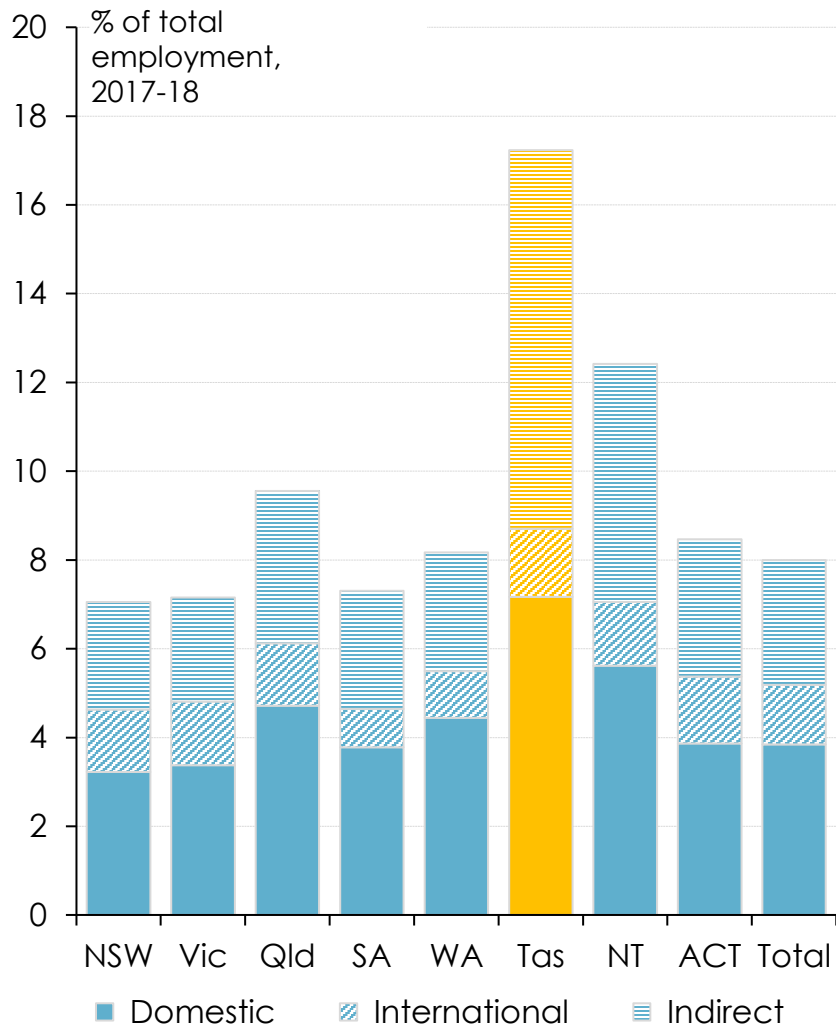
Visitors to Tasmania



Tourism gross value added



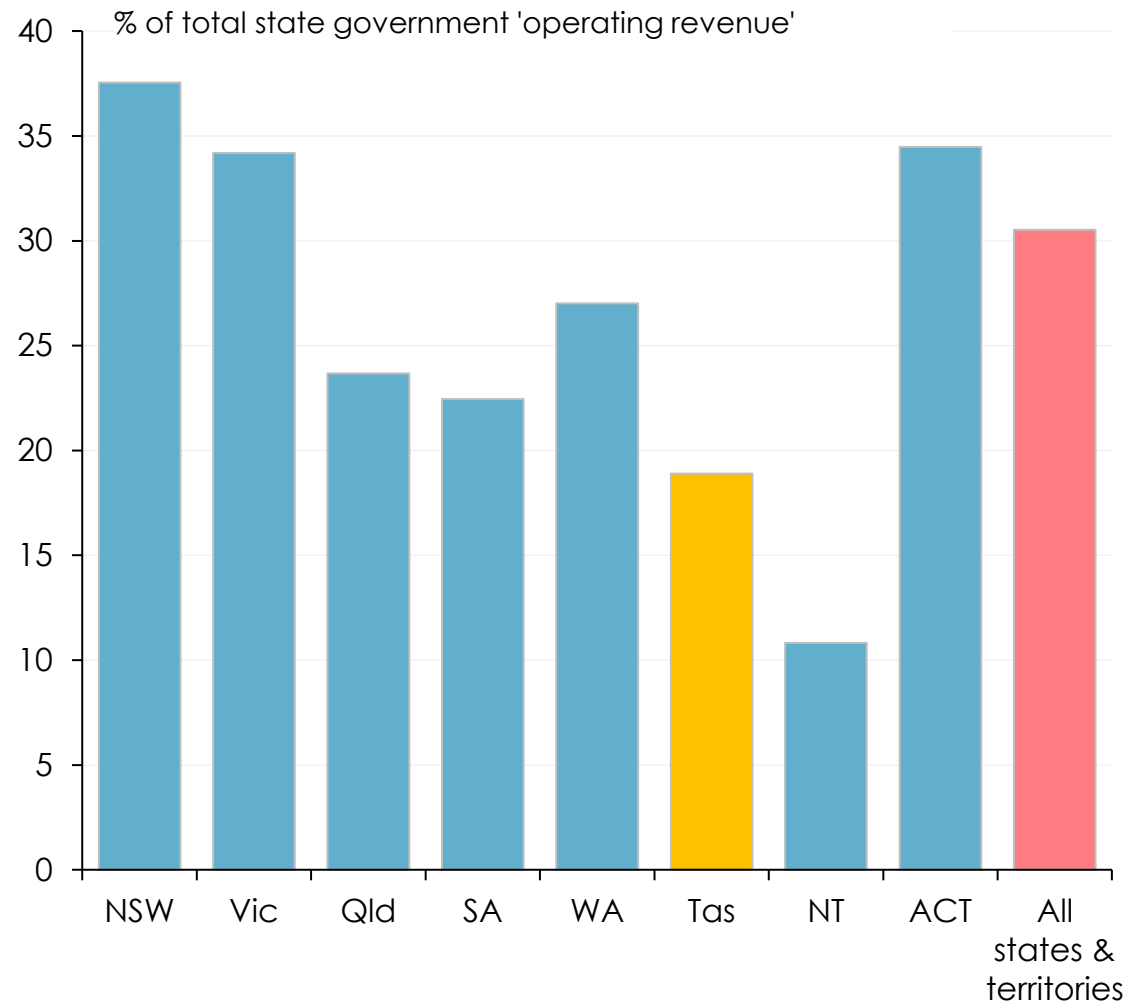
Tourism employment



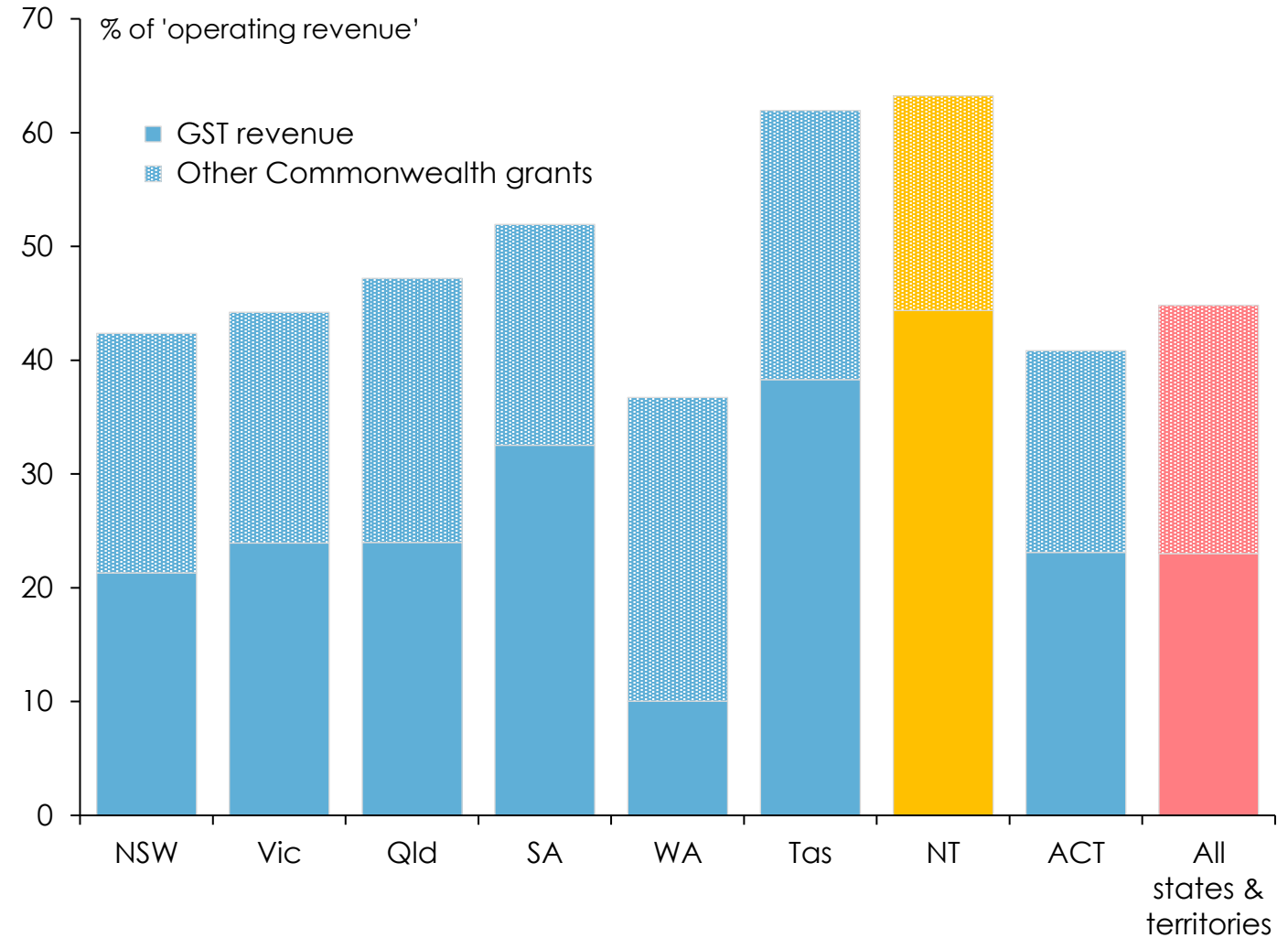
Sources: Tourism Tasmania; Tourism Research Australia.

Tasmania is more vulnerable to shortfalls in GST revenue (or changes in the revenue-sharing formula) than anywhere else except the NT ...

State tax revenue as a pc of total 'operating' revenue, 2018-19



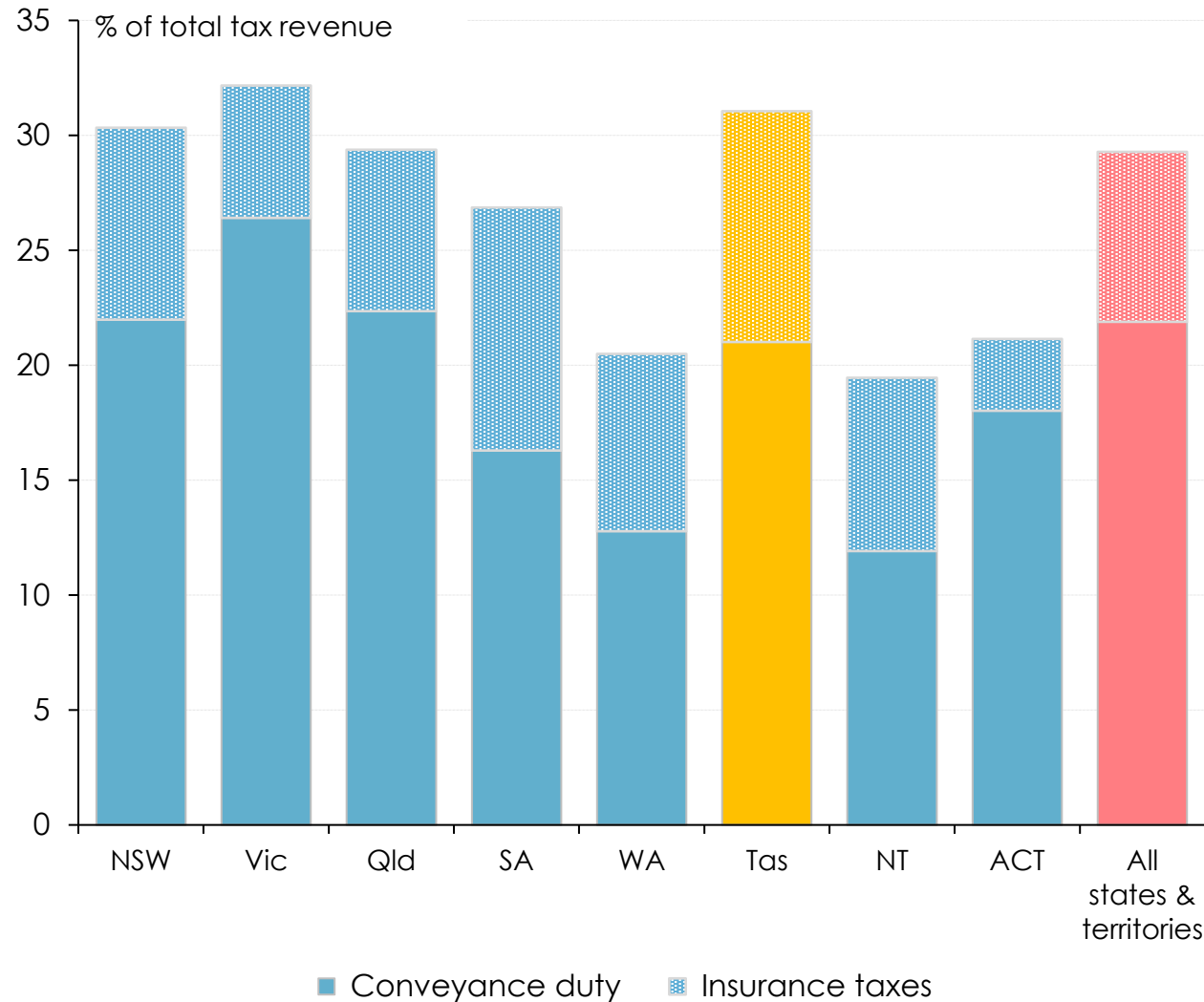
GST revenue shares and other Commonwealth grants as a pc of total 'operating' revenue, 2018-19



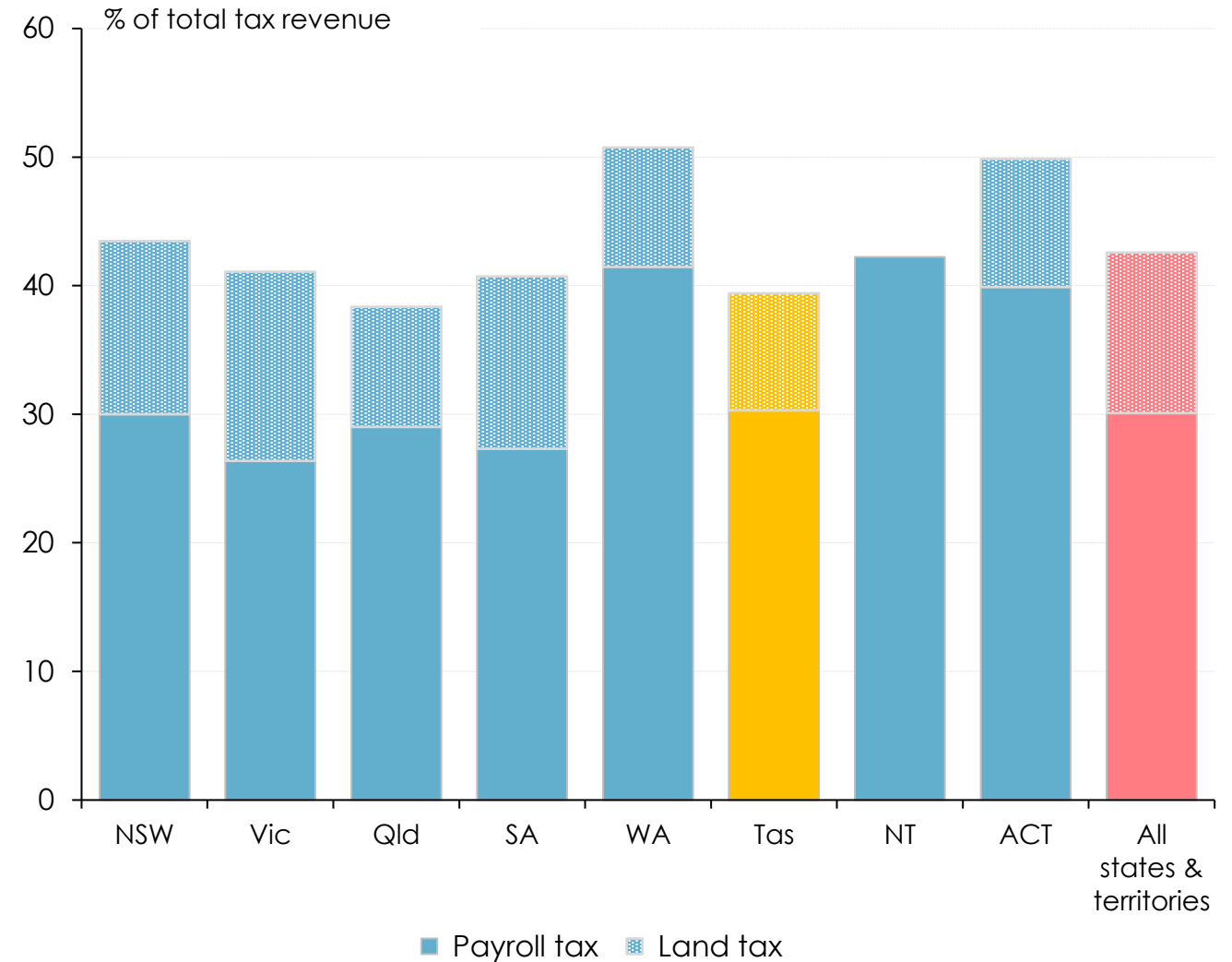
Sources: ABS, Australian Government Budget Papers.

... which is why reform of state taxation ought to be a more pressing long-term issue in Tasmania than in other states

Revenue from 'bad' state taxes as a pc of total state taxation revenue, 2018-19



Revenue from 'good' state taxes as a pc of total state taxation revenue, 2018-19



Sources: ABS; Corinna.

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