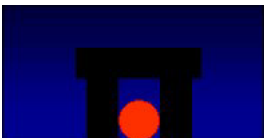


Australian Outlook

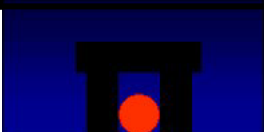
January 2003

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Summary

- There is upwards pressure on consumer prices and on interest rates
- The value of the Australian dollar is likely to remain within a narrow range
- GDP growth is expected to slow due to
 - Weak exports, in part influenced by the drought
 - Slowing investment growth, especially housing
- The biggest threat to discretionary consumption spending, is oil prices

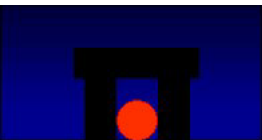
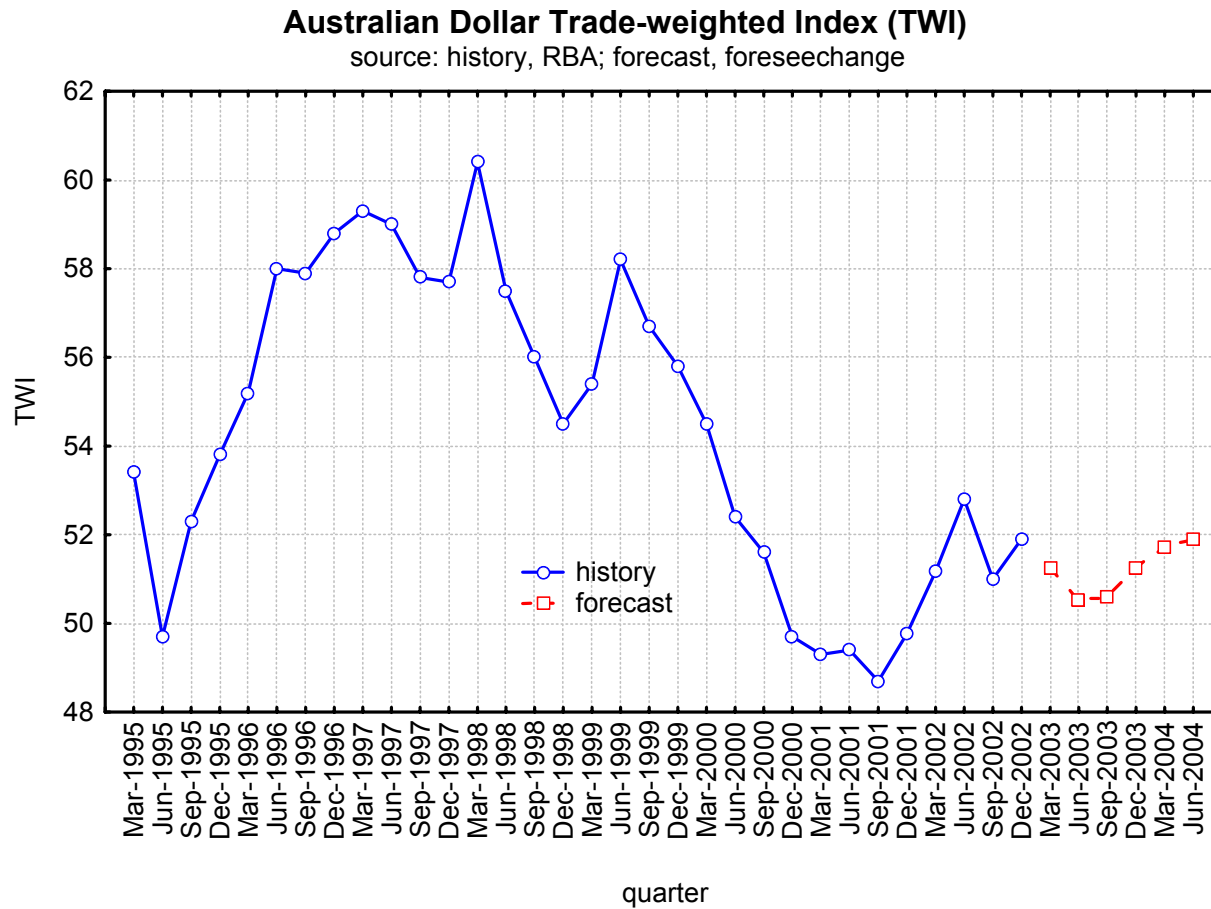


Australian Dollar

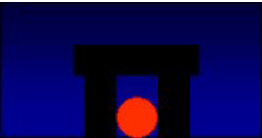
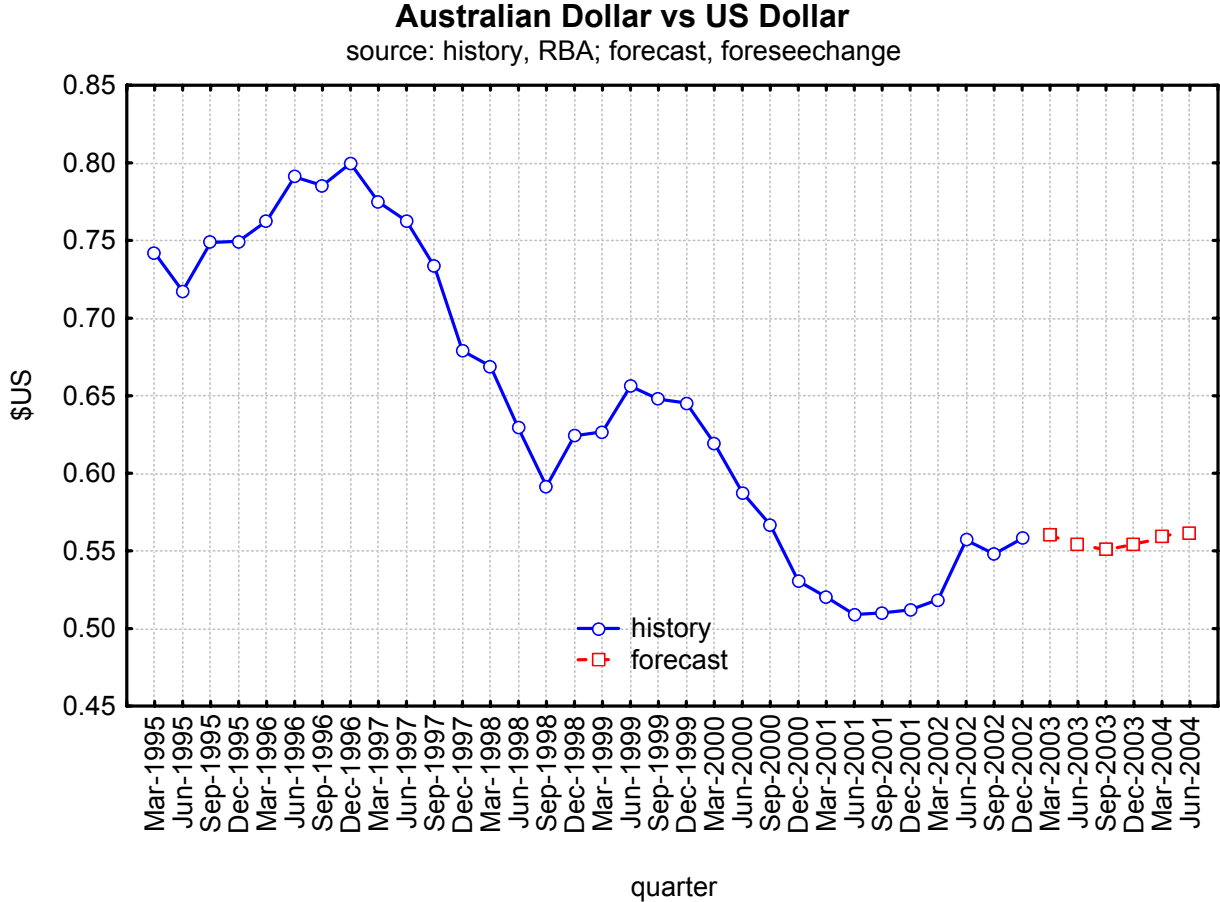
- The Australian dollar rose slightly in late 2002, following an upgrading of Australia's debt rating and a cut in US interest rates
- The Australian dollar is expected to remain steady over the next 12 months
 - Rising Australian interest rates and improved expectations for world growth (reflected in commodity prices) could lift the \$A slightly
 - Rising US interest rates could bring about a fall in the \$A
 - But the poor climate for R&D in Australia is likely to limit the upside opportunity (see our research paper at www.futuretoolkit.com/currency.pdf)
- Much depends on the value of the US dollar too
 - It declined by 10% to 17% against major currencies in 2002
 - The large US current account deficit requires foreign financing



Australian Dollar - TWI



Australian Dollar - \$US



Australian Dollar (average for quarter)

Quarter	TWI (Dec 02 = 51.9)	\$US (Dec 02 = 0.558)
Mar 03	51.3	0.560
Jun 03	50.5	0.554
Sep 03	50.6	0.551
Dec 03	51.2	0.555
Mar 04	51.7	0.559
Jun 04	51.9	0.561

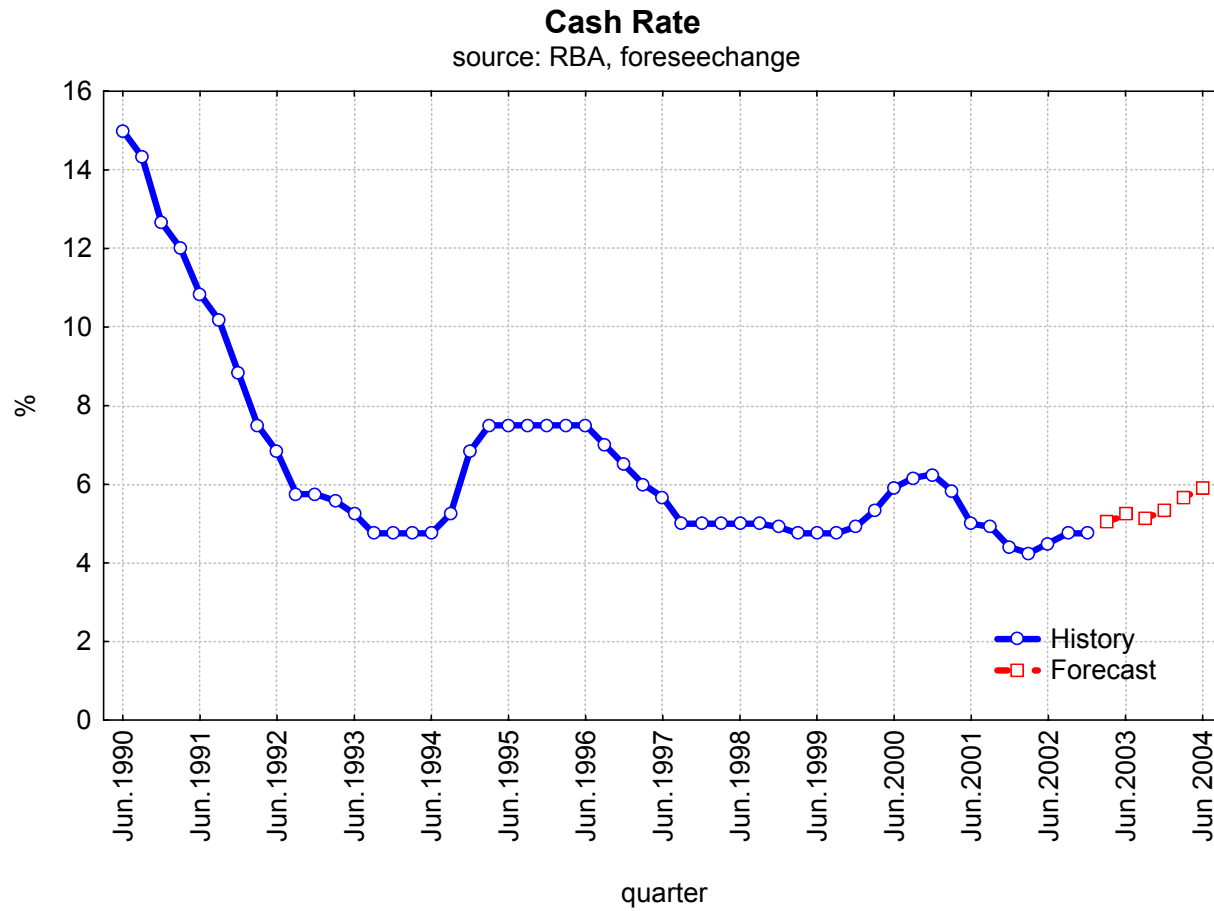


Interest Rates

- The Reserve Bank of Australia (RBA) influences interest rates by setting a target for the cash rate, which is the overnight money market interest rate
- Domestic activity is strong enough for the RBA to want to lift rates, but they are constrained by the very low interest rates in USA
 - Official interest rates in Australia are 3.5% higher than in USA, the biggest gap since April 1992
- Our model predicts that interest rates will rise by 0.5% by mid-2003 and by a further 0.5% by mid-2004



Cash Rate



GDP

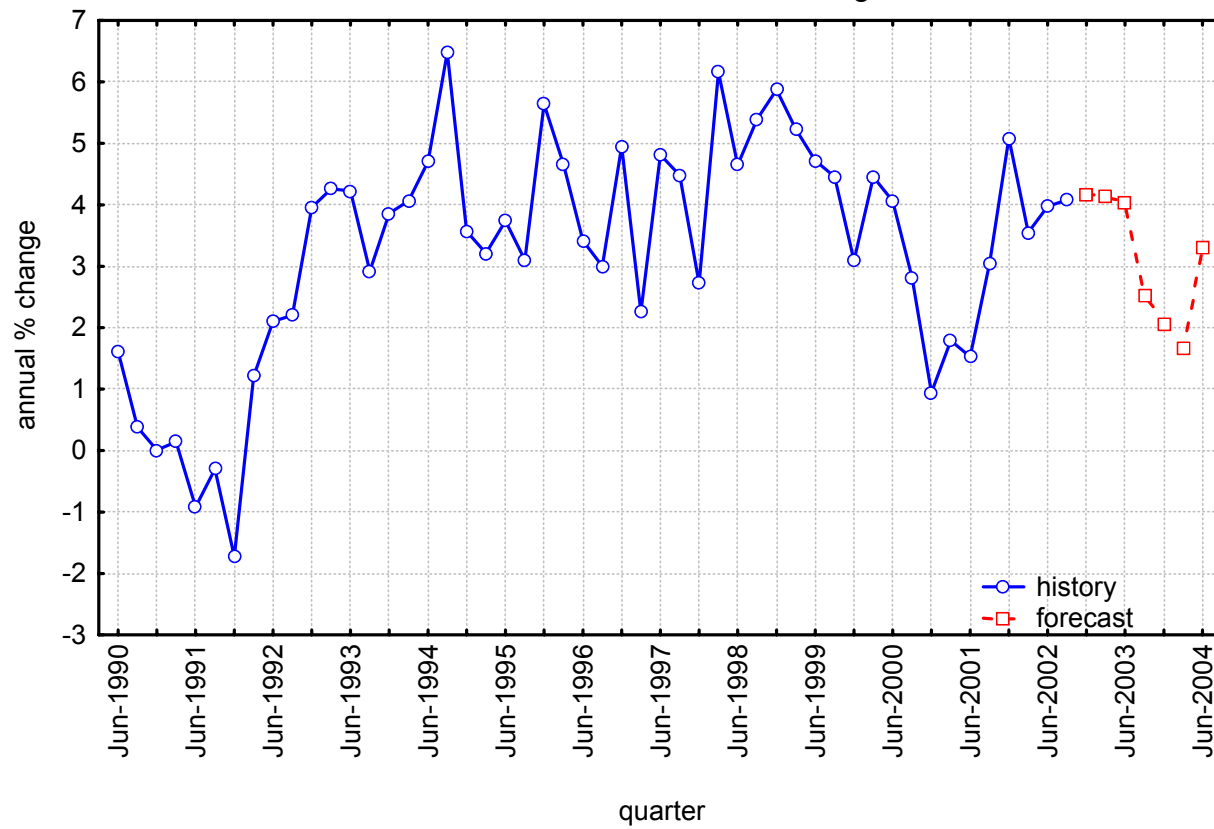
- Australia's strong economic growth rate is expected to continue, although there is likely to be a slowdown in late 2003
 - Slowing investment growth (especially housing) with some recovery during 2004, depending on interest rates
 - Weak export growth, in part caused by drought, with some recovery likely but timing uncertain
- Strong growth in household consumption spending (which constitutes 60% of GDP) will underpin GDP growth



GDP

Gross Domestic Product (Chain Volume)

sources: ABS 5206.0; foreseechange

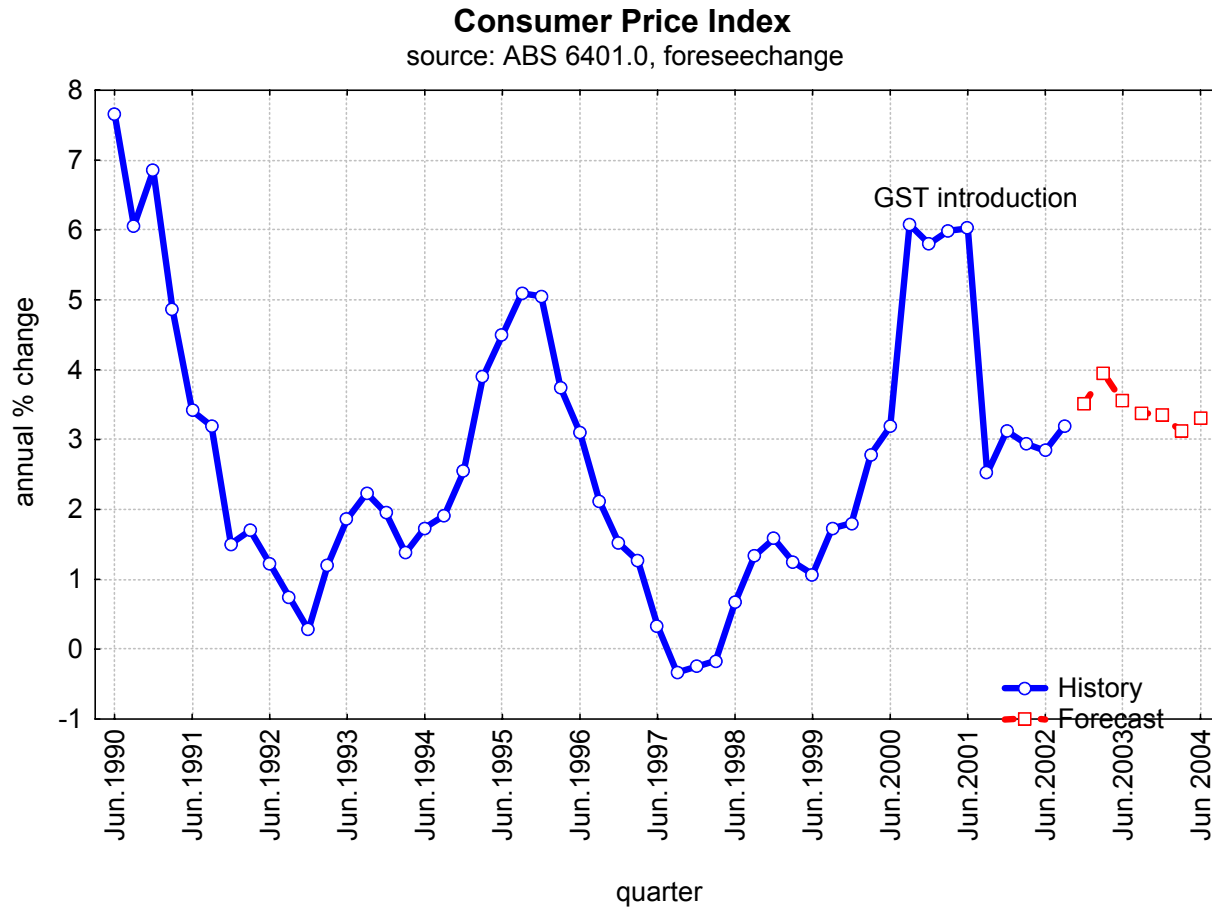


CPI

- Consumer prices are predicted to rise at a faster rate than the RBA's target zone (between 2% and 3% per year)
 - This would put upward pressure on interest rates
- Influential factors include
 - Oil prices: the recent spike above \$30 per barrel, if maintained, will lift the cpi
 - The drought will put upward pressure on food prices
 - The value of the Australian dollar: an increase would tend to hold prices down



CPI

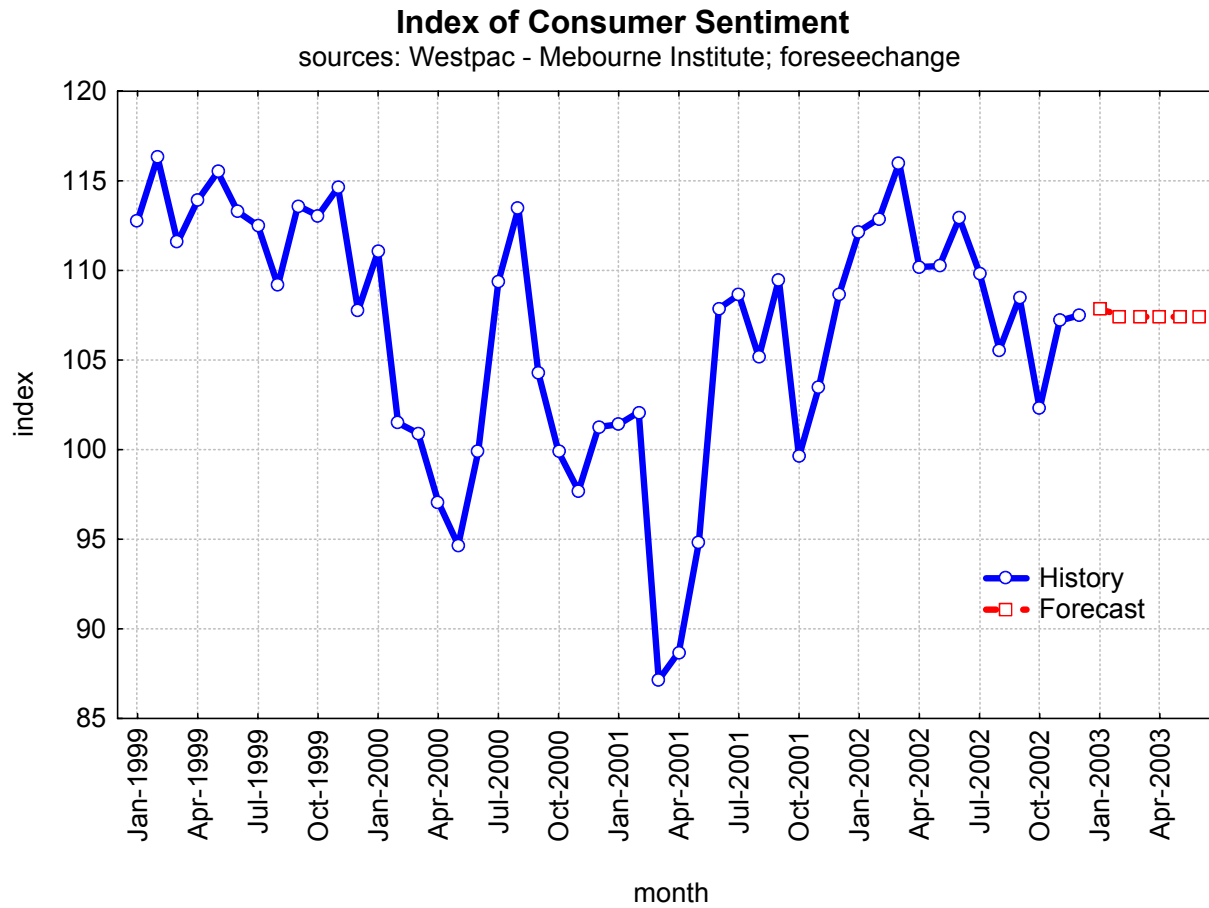


Index of Consumer Sentiment

- Research by foreseechange and by the RBA shows that the index of consumer sentiment (ICS) tells us nothing about the future of consumer spending
- Instead, it is like a rear vision mirror: reflecting past economic news
 - So it can be modelled and predicted
- Some business decision makers believe that it does contain information about the future and use it as an input to decision making
 - For example, increasing production or imports when ICS rises
- Our model predicts a period of quite steady ICS
 - although, being survey based, it is subject to sampling error
 - It is also volatile, depending as it does on economic news and how that is portrayed in the media



Index of Consumer Sentiment



Future Issues of BEFORE

Activity/Indicator	Month
\$A	All
Interest Rates	Feb, May, Aug, Nov
GDP	Jan, Apr, Jul, Oct
CPI	Mar, Jun, Sep, Dec
Index of Consumer Sentiment	All
Consumer Willingness and Ability to Spend	Jun, Dec

