



Cement concrete & aggregates (CCAA)

October 2008

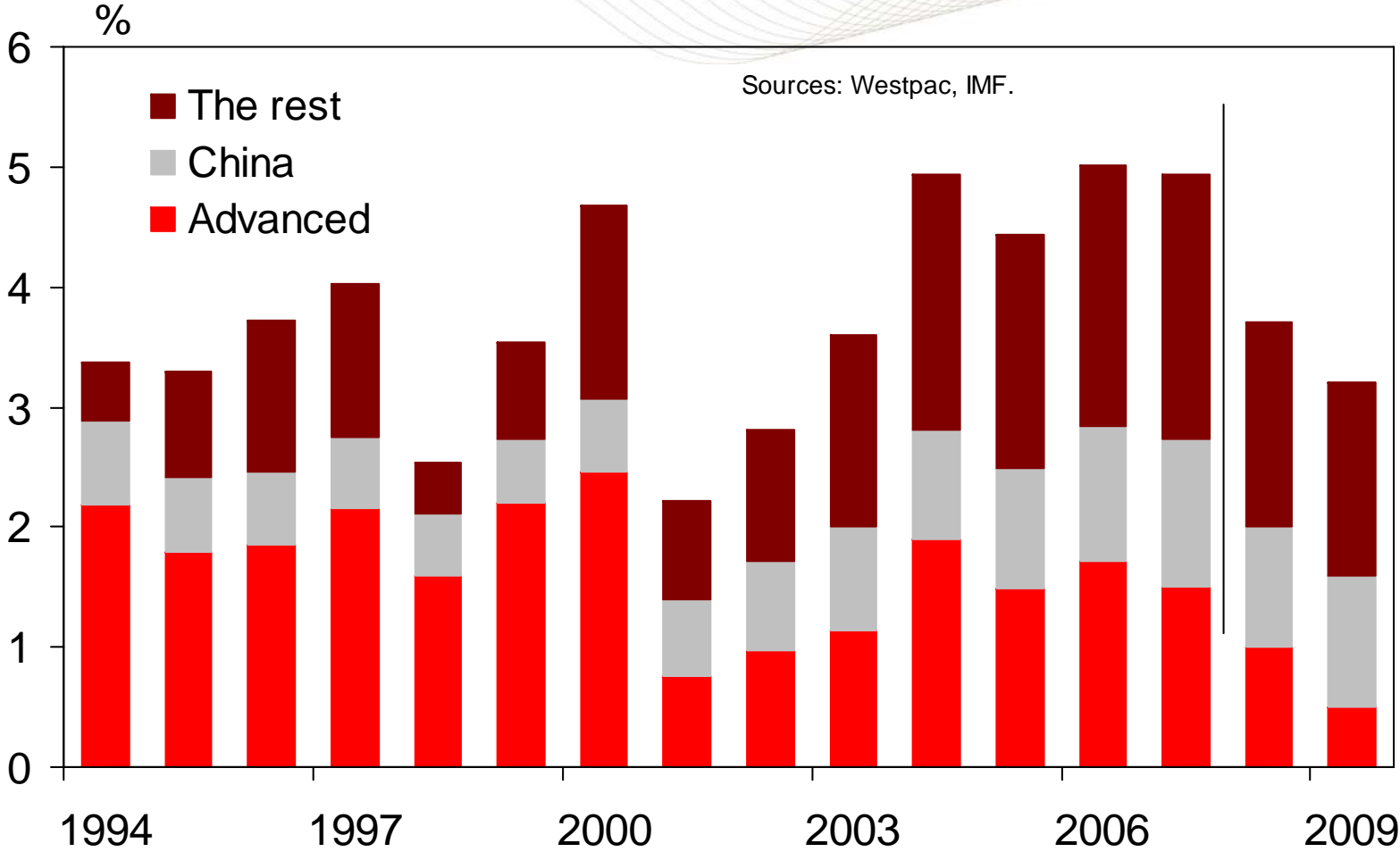
Bill Evans

Managing Director,
Economics & Research

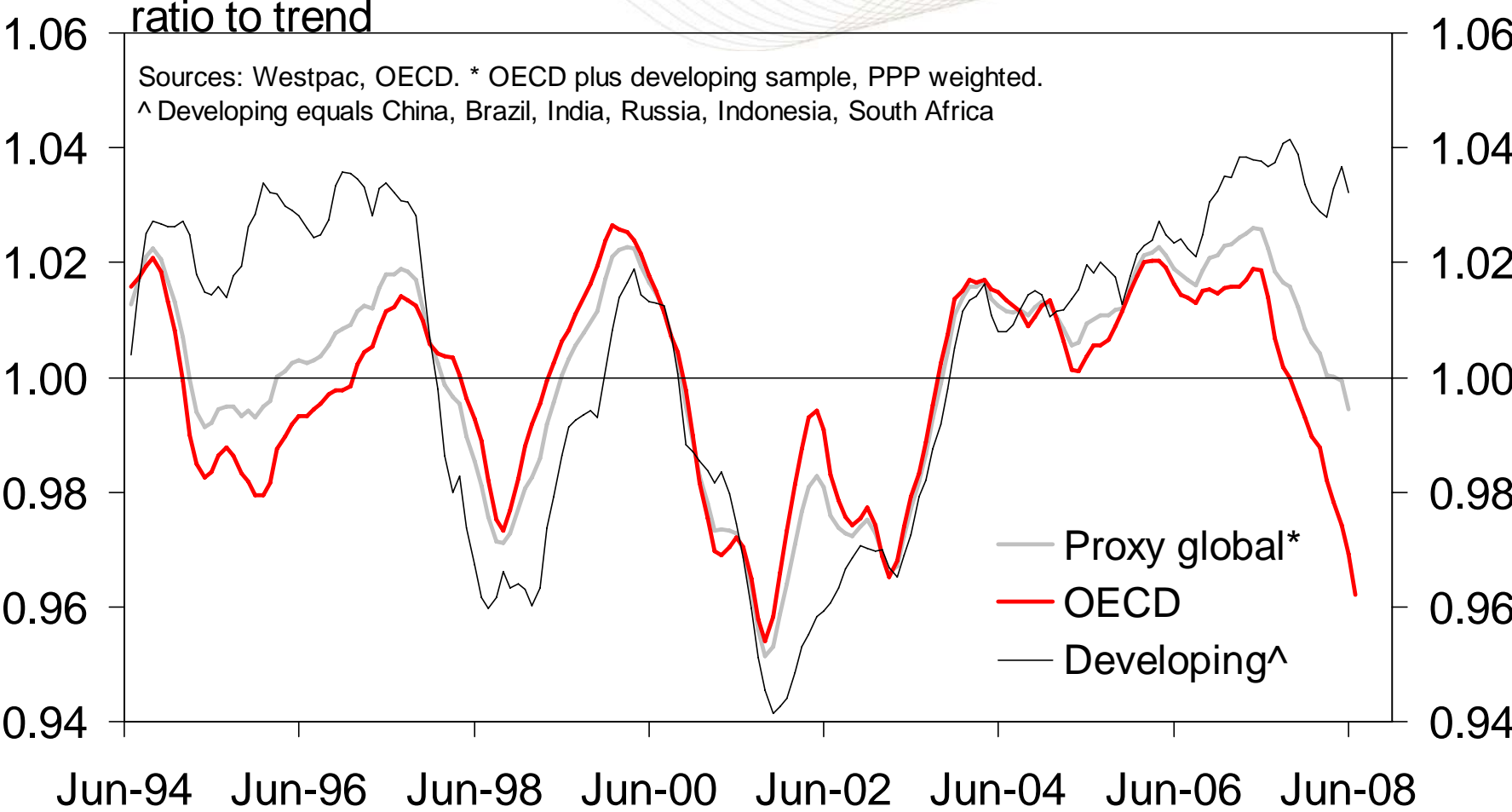
Current forecasts – October 2008

| | Latest | Dec-08 | June-09 | Dec -09 |
|------------|--------|--------|---------|---------|
| RBA Cash | 6.00 | 5.25 | 4.75 | 4.75 |
| 3yr swap | 5.35 | 5.00 | 4.75 | 5.50 |
| 10yr bond | 4.93 | 4.6 | 4.4 | 5.20 |
| Fed Funds | 2.00 | 1.00 | 1.00 | 1.00 |
| US 10 year | 3.5 | 3.2 | 3.0 | 3.8 |
| AUD/USD | 0.68 | 0.72 | 0.78 | 0.82 |
| EUR/USD | 1.37 | 1.42 | 1.45 | 1.35 |
| USD/JPY | 99 | 95 | 90 | 100 |

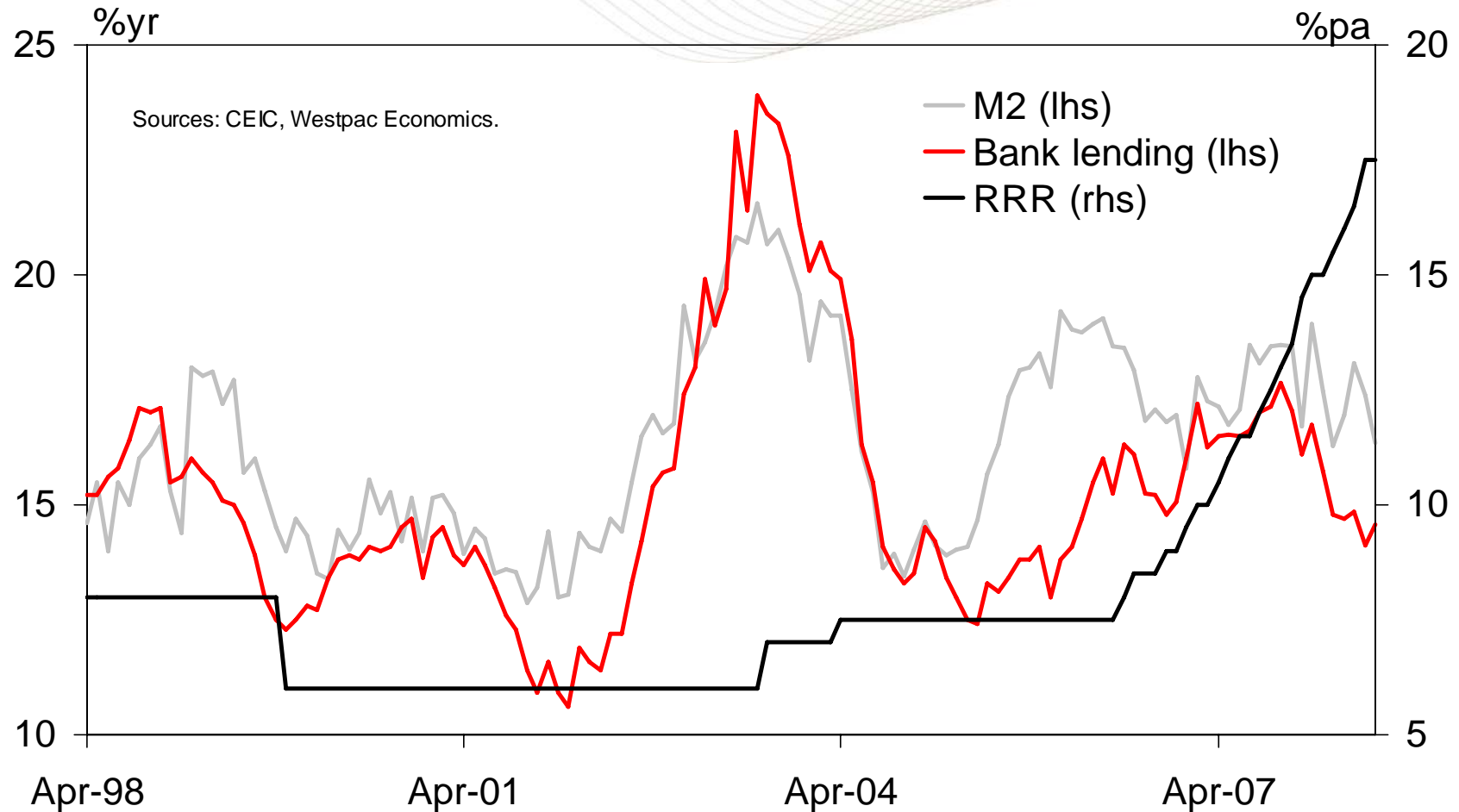
Global growth- advanced collapses



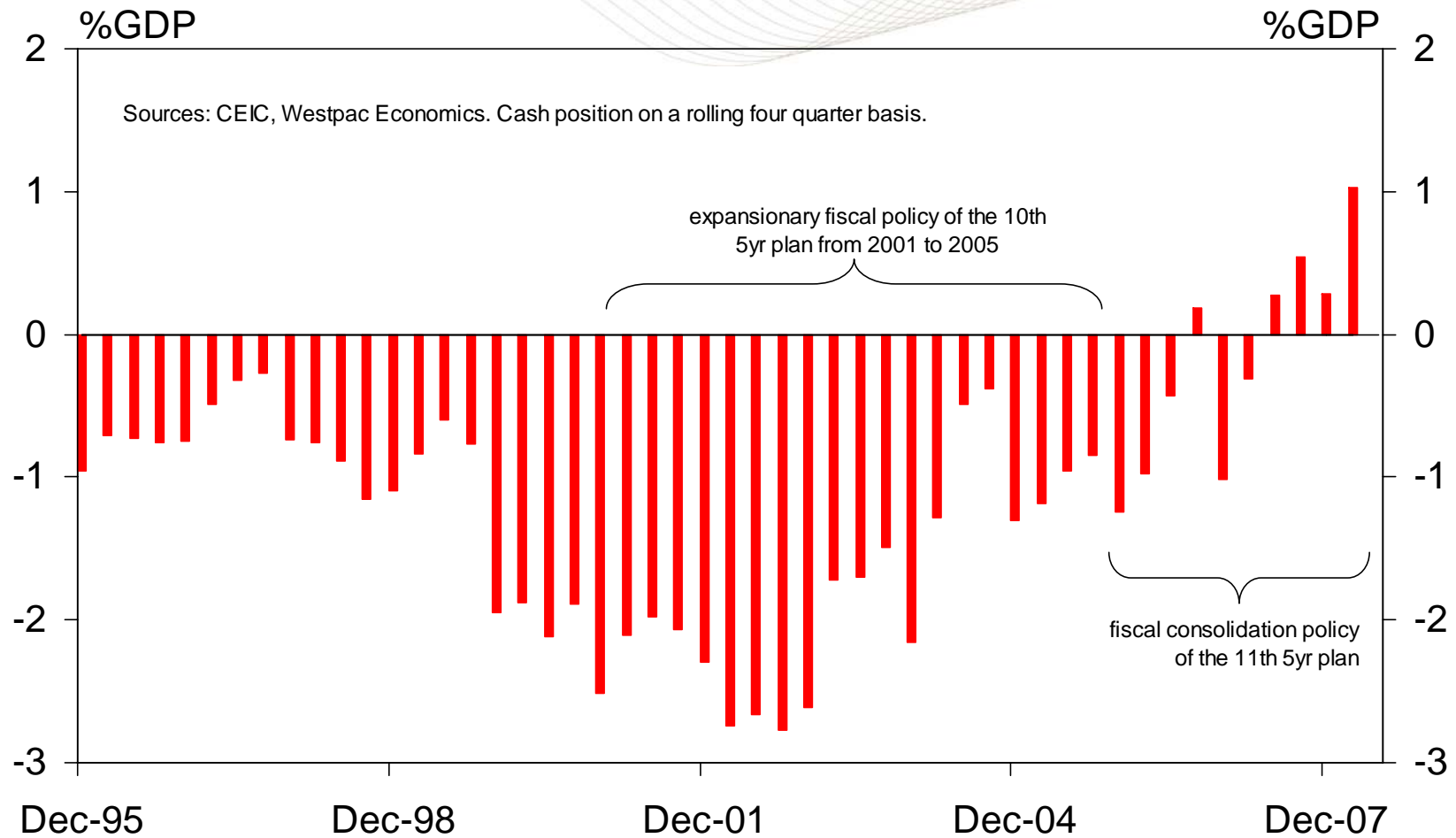
Leading indicators of global growth



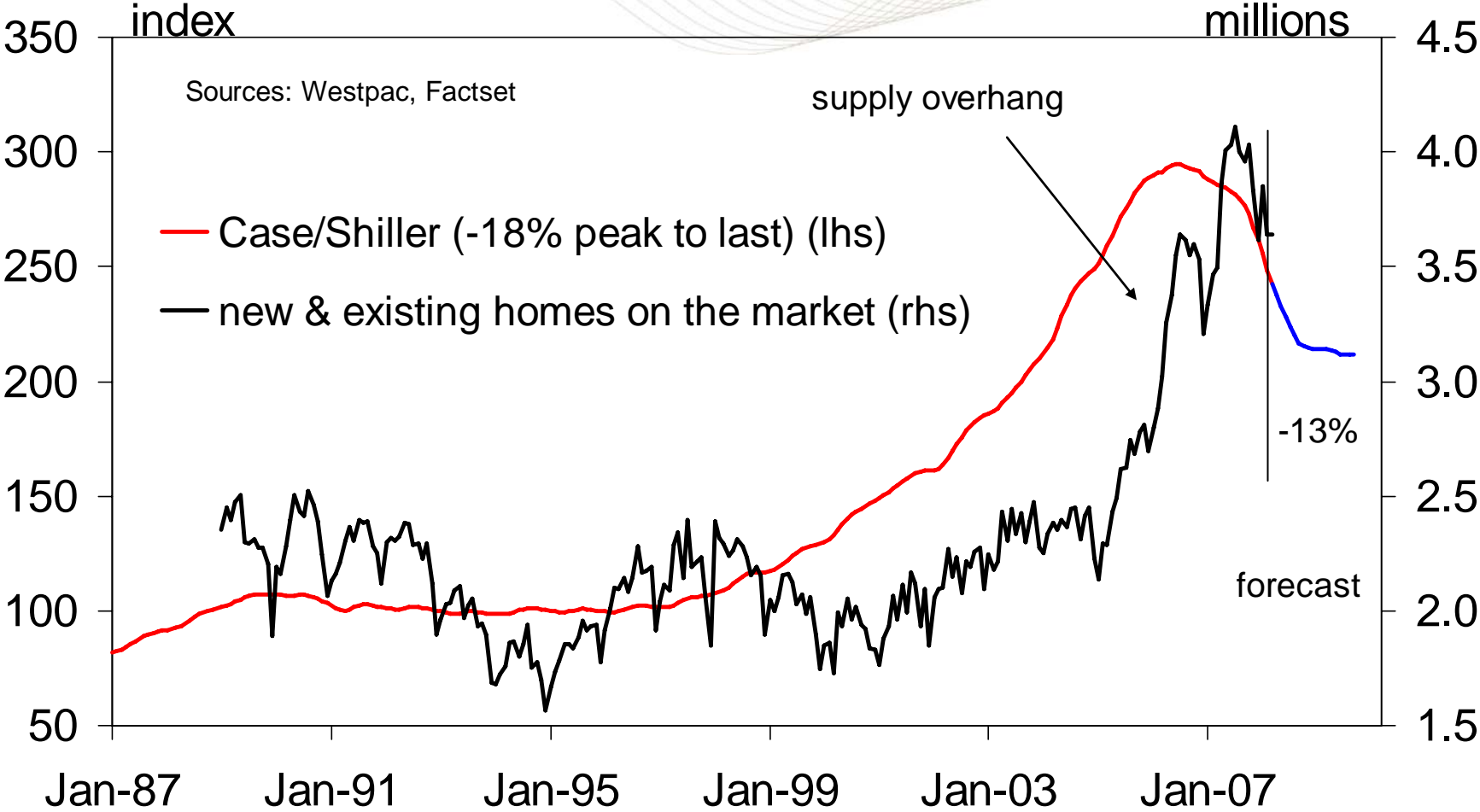
China: credit, policy & the money supply



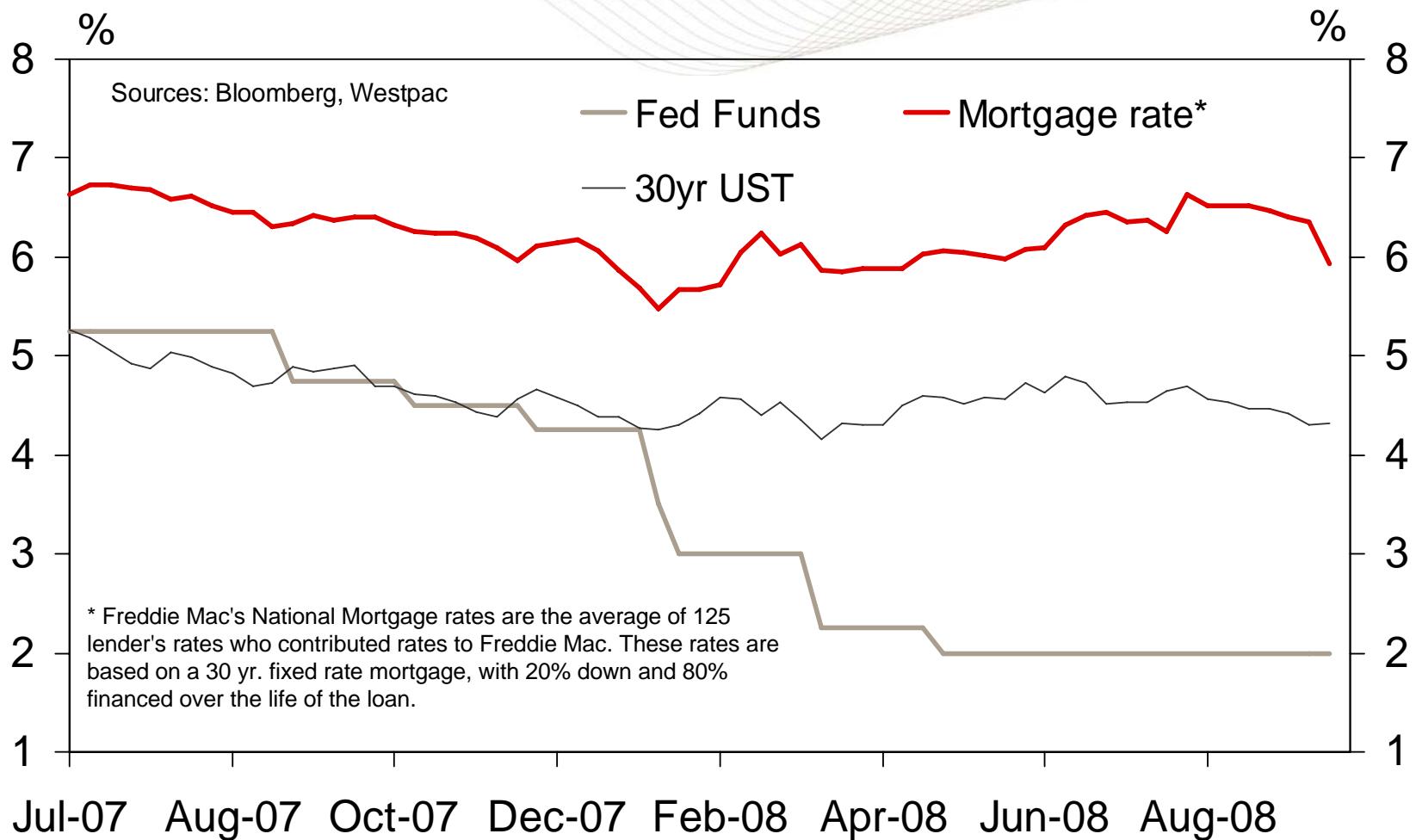
The central government fiscal position



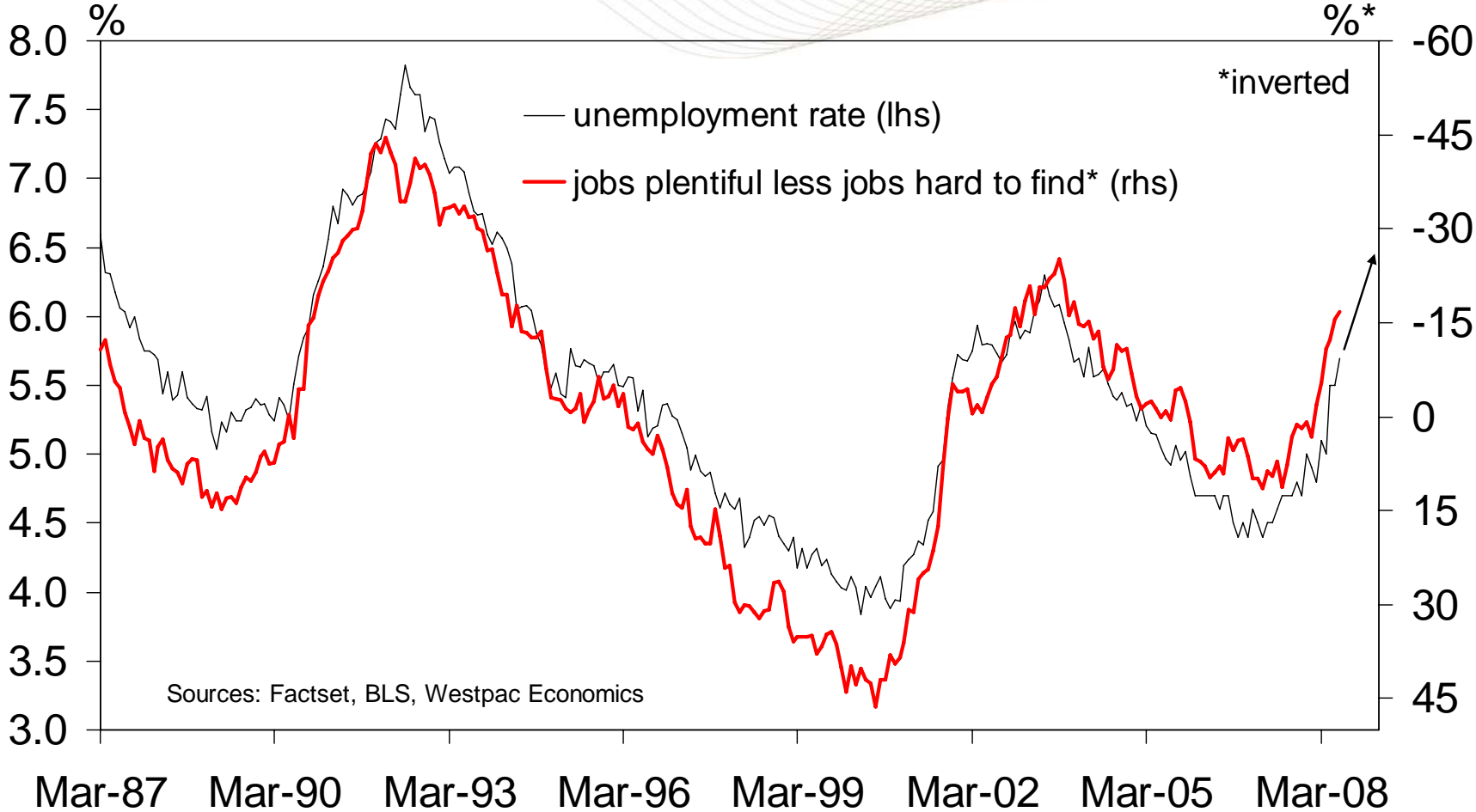
US house prices likely to fall 28%



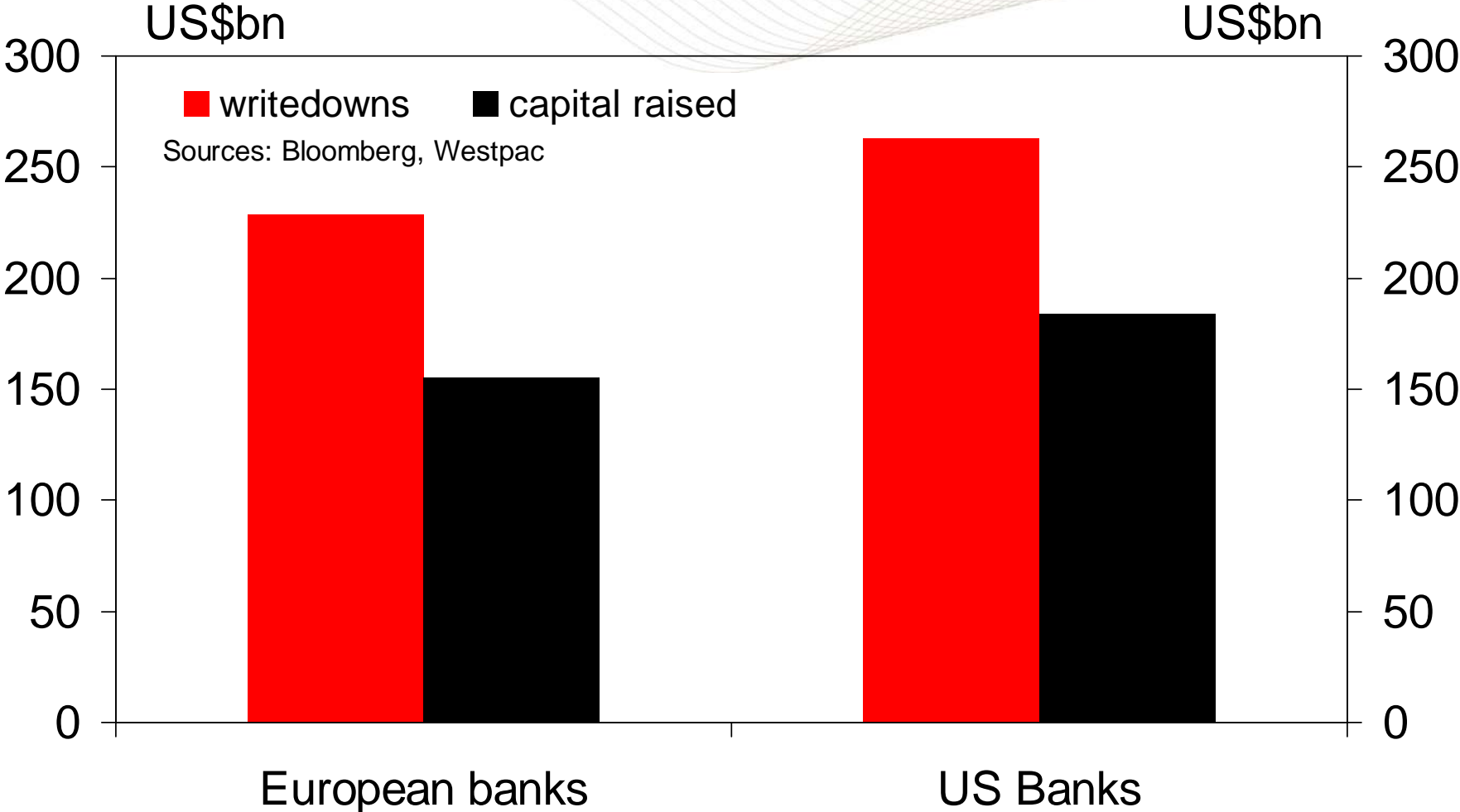
US lending rates improve after conservatorship



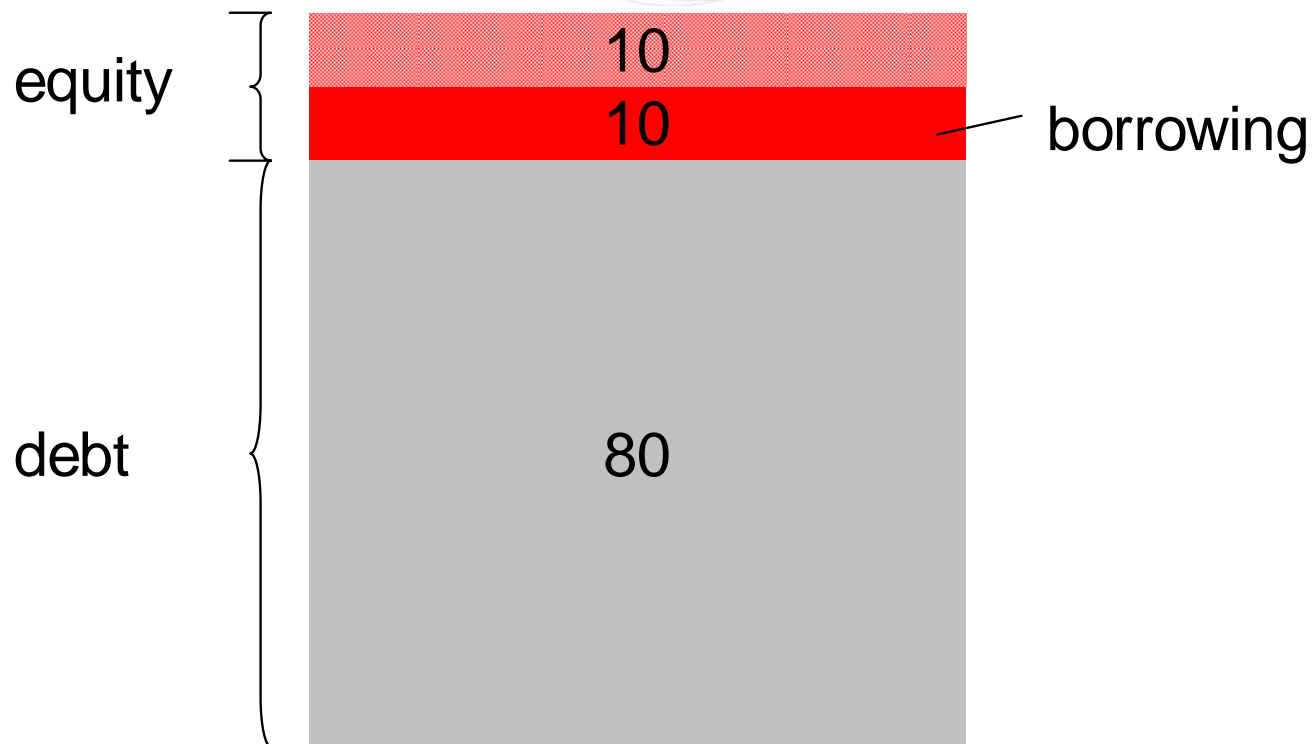
US job sentiment is deteriorating



Banks: total writedowns and capital raisings



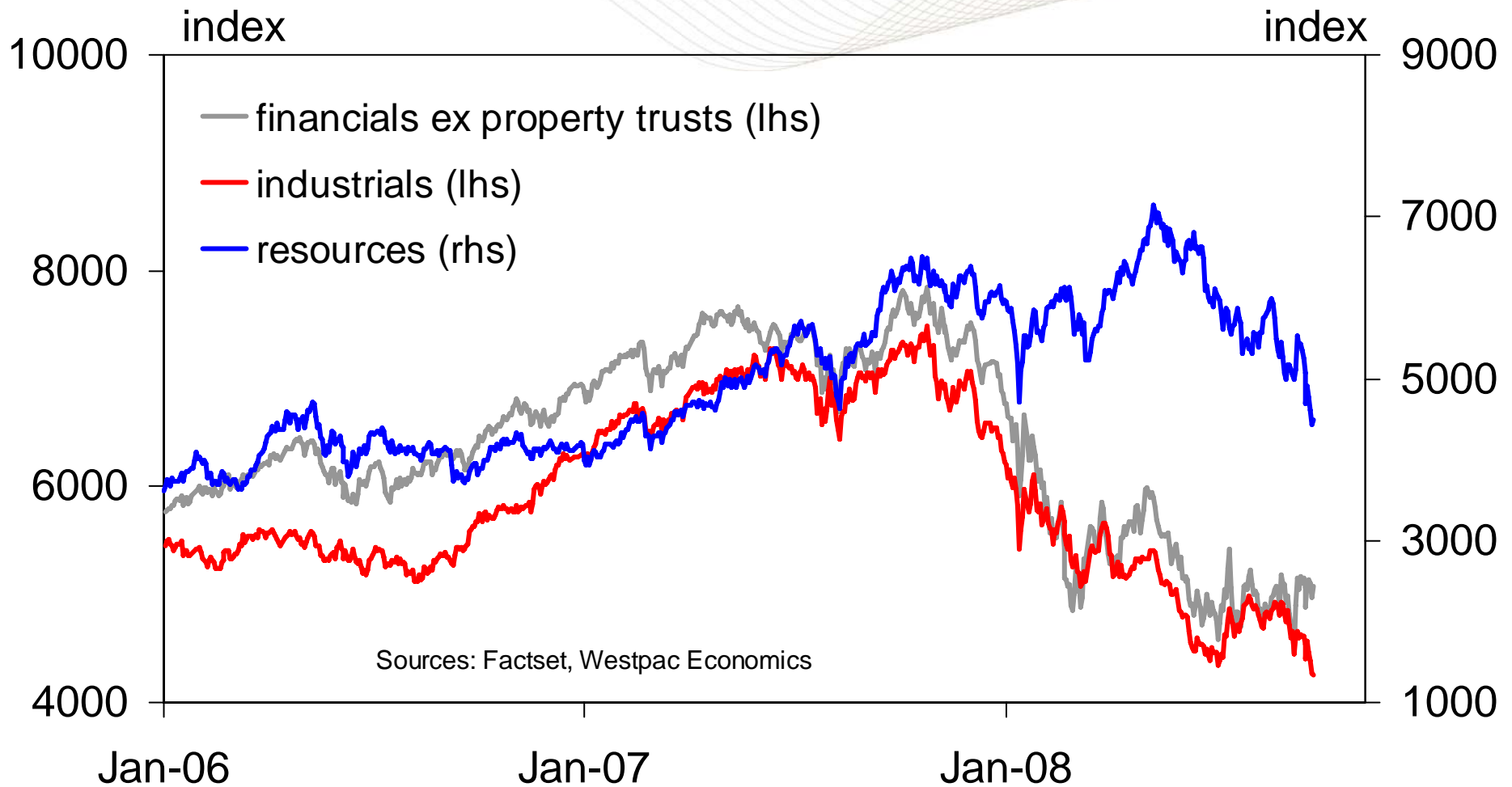
Leverage 'tree'- now economy to affect asset



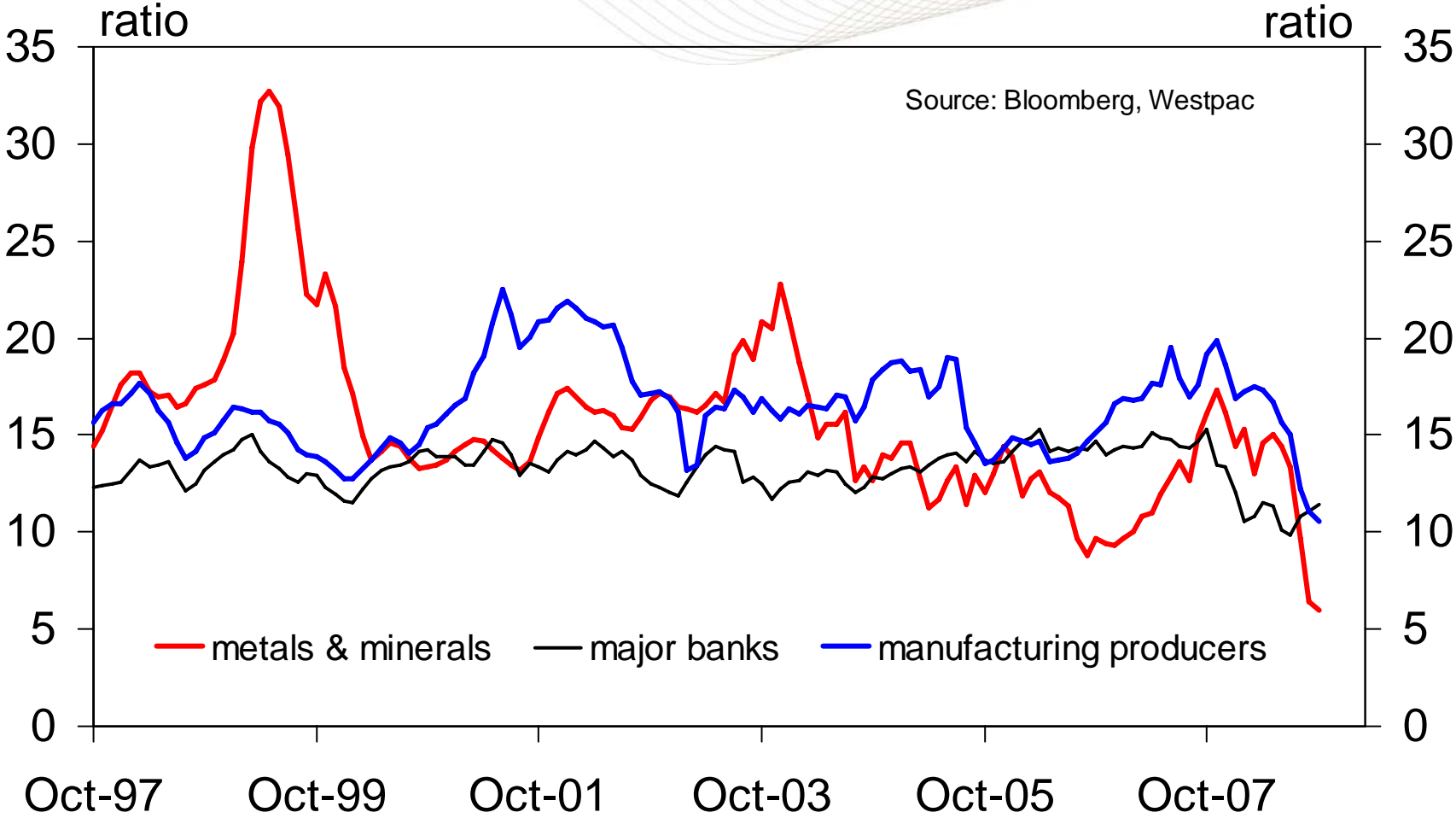
ASSET: 100
Leverage: 9x NOT 4x

Source: Westpac

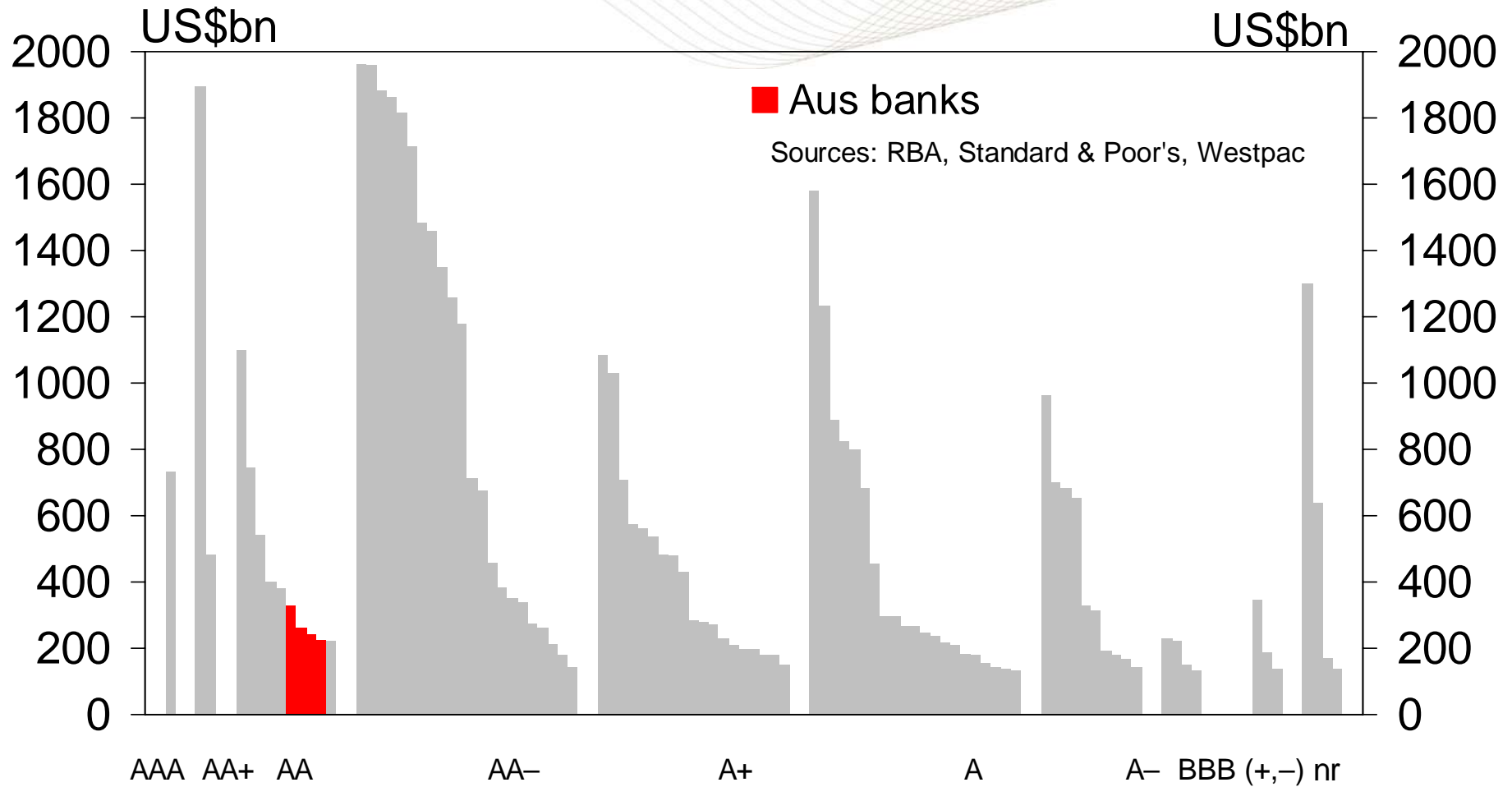
Australia: sectoral performance



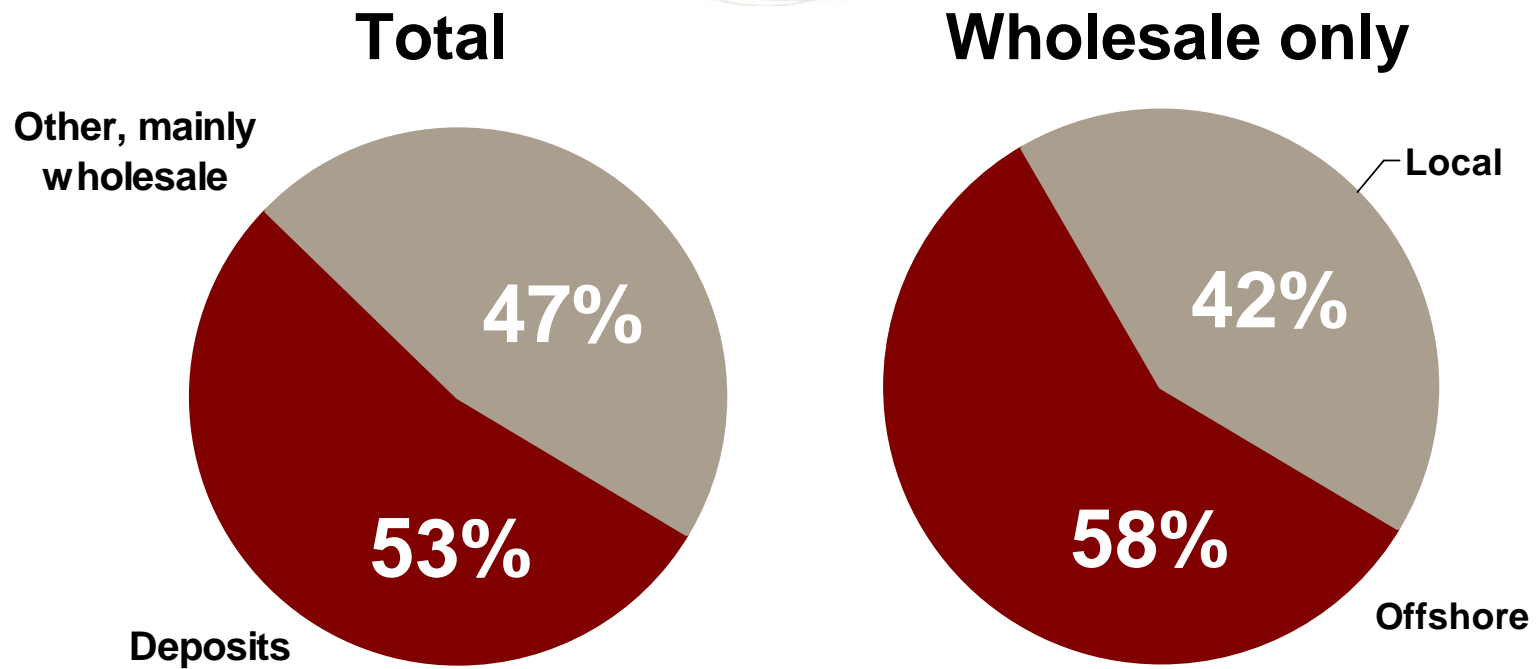
Fwd P/E ratio: Australian market sectors



Top 100 banks by rating: updated

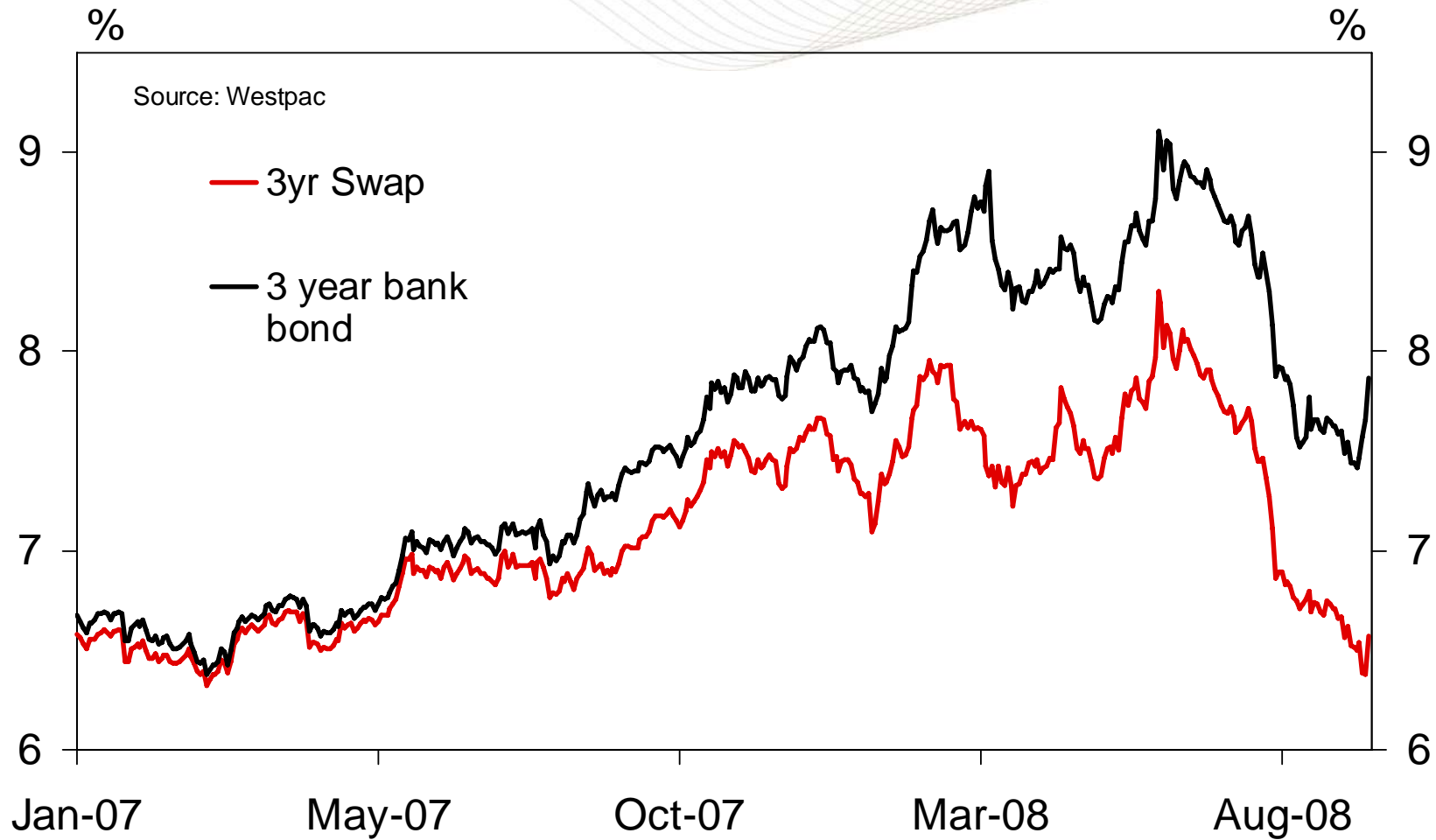


Westpac's funding sources

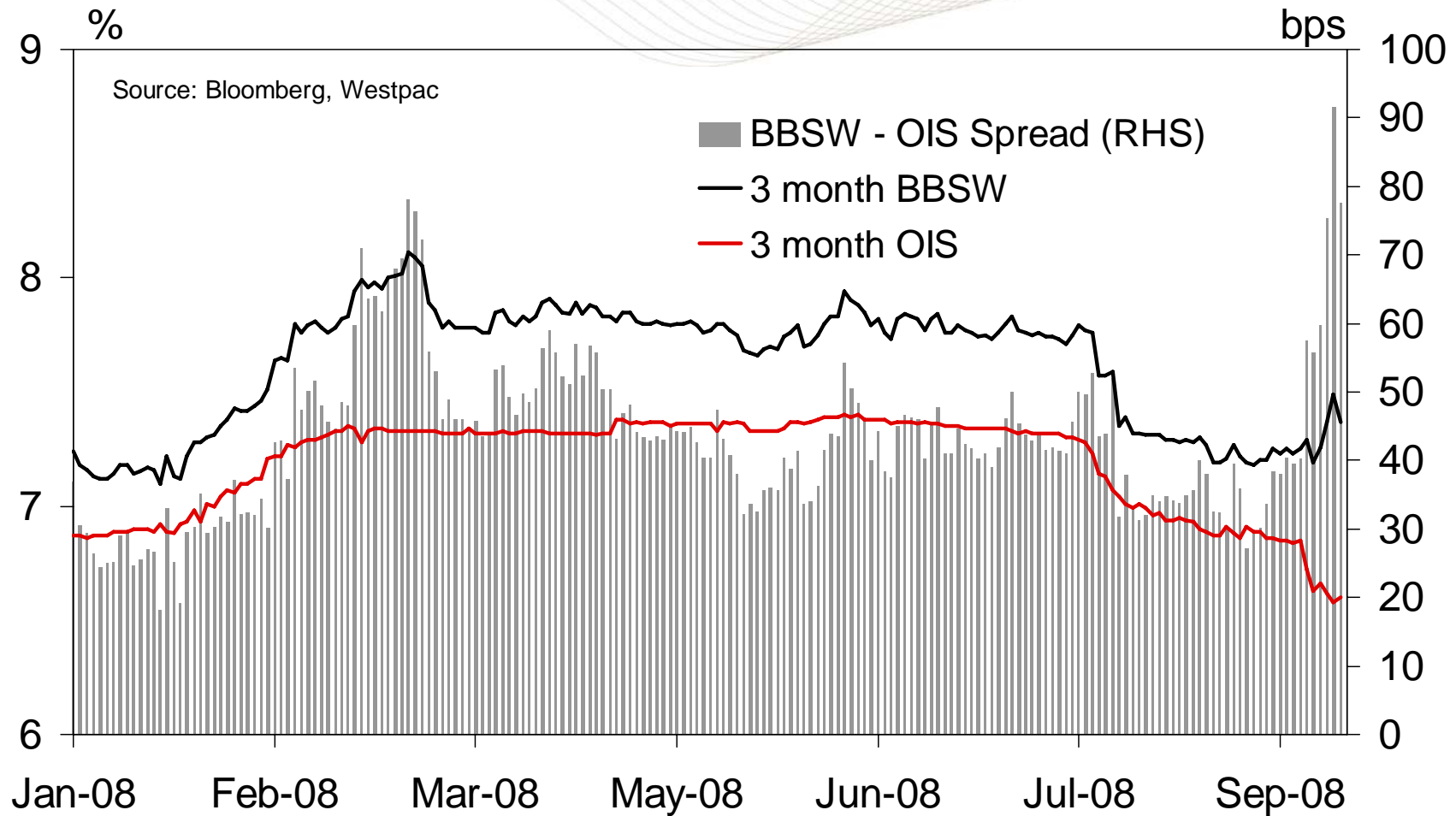


Source: Westpac Treasury

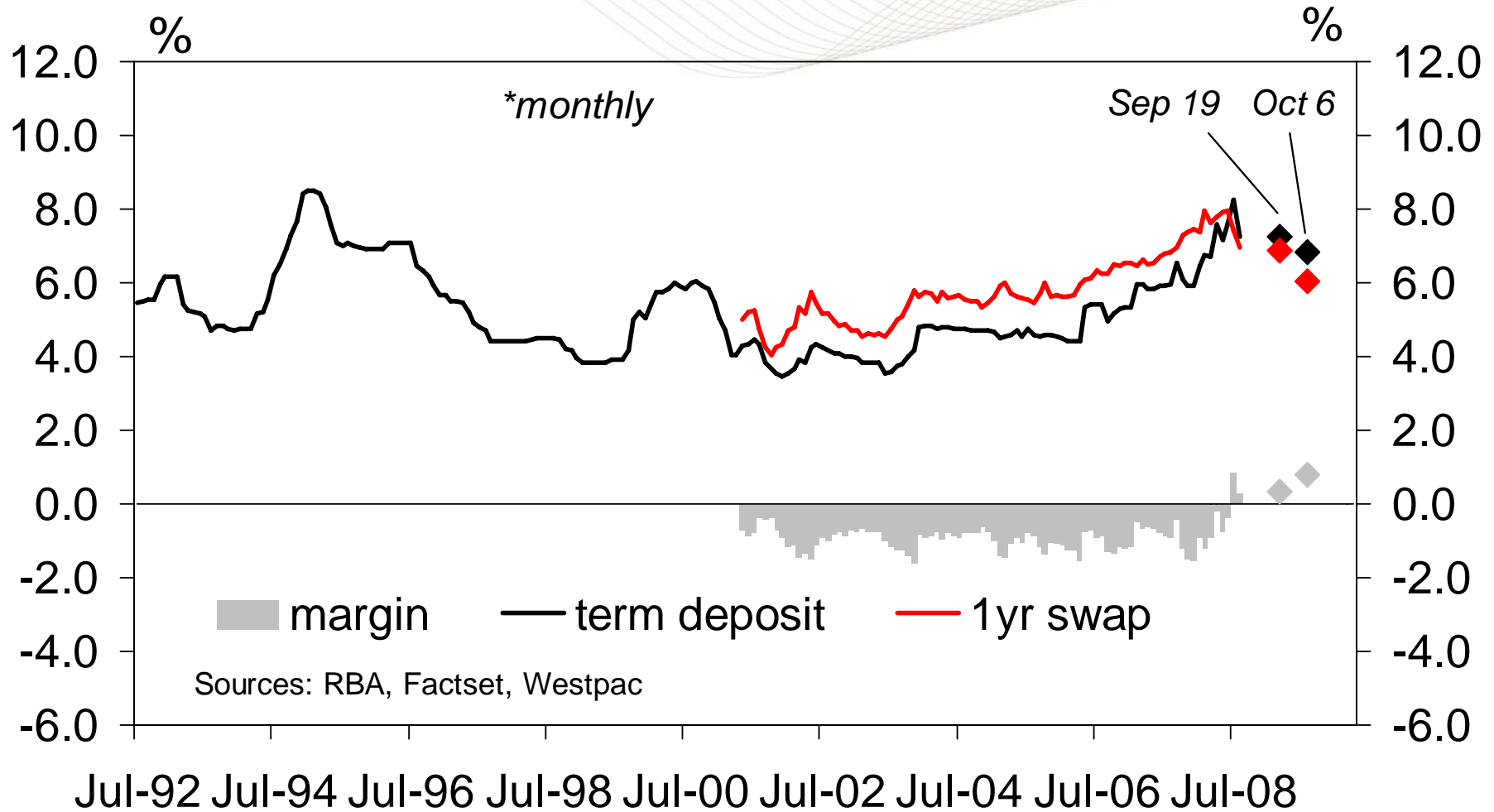
The margin for AA bank debt at its widest



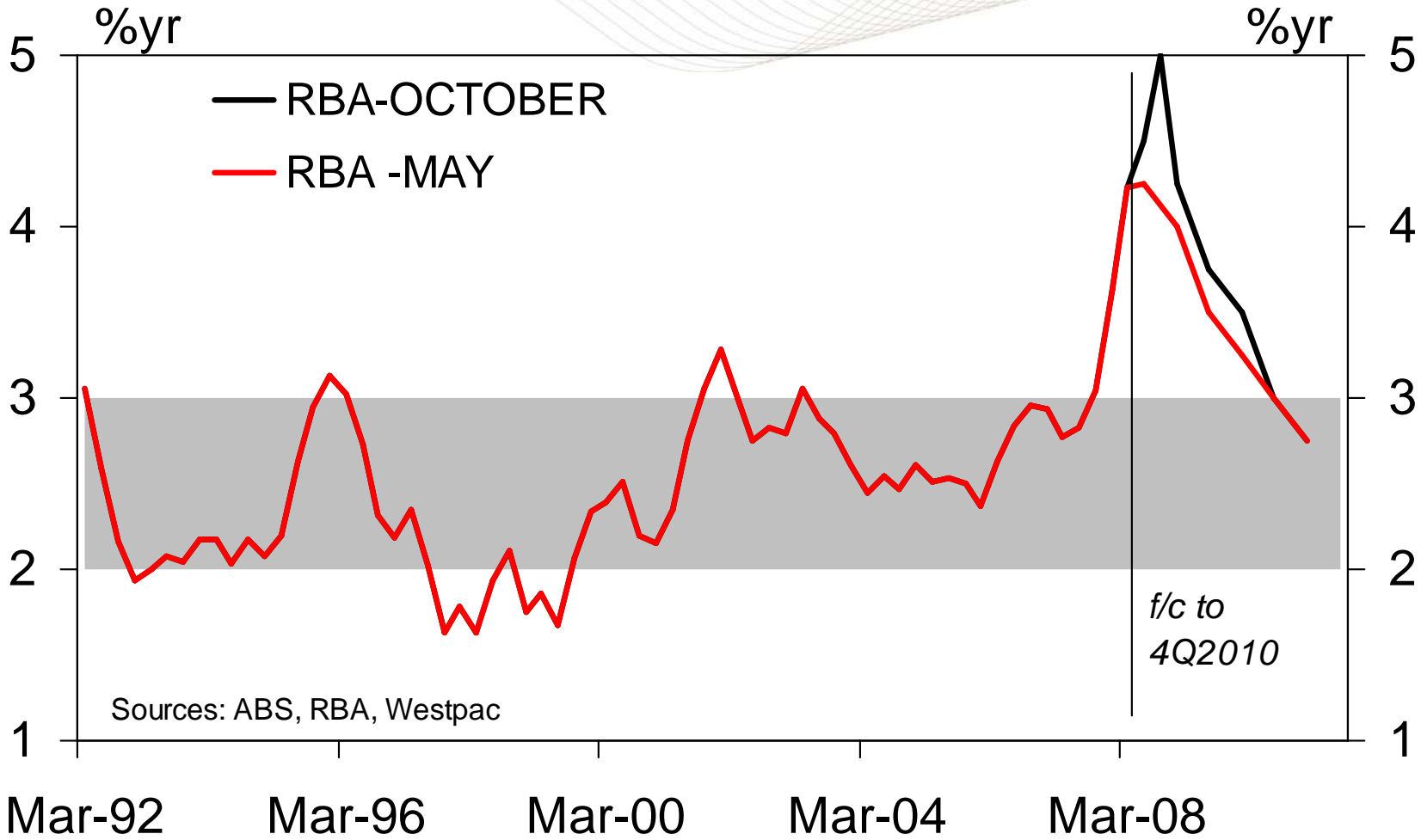
Wholesale funding spreads widen 50 bp's



Term deposit rates vs swap: 1yr

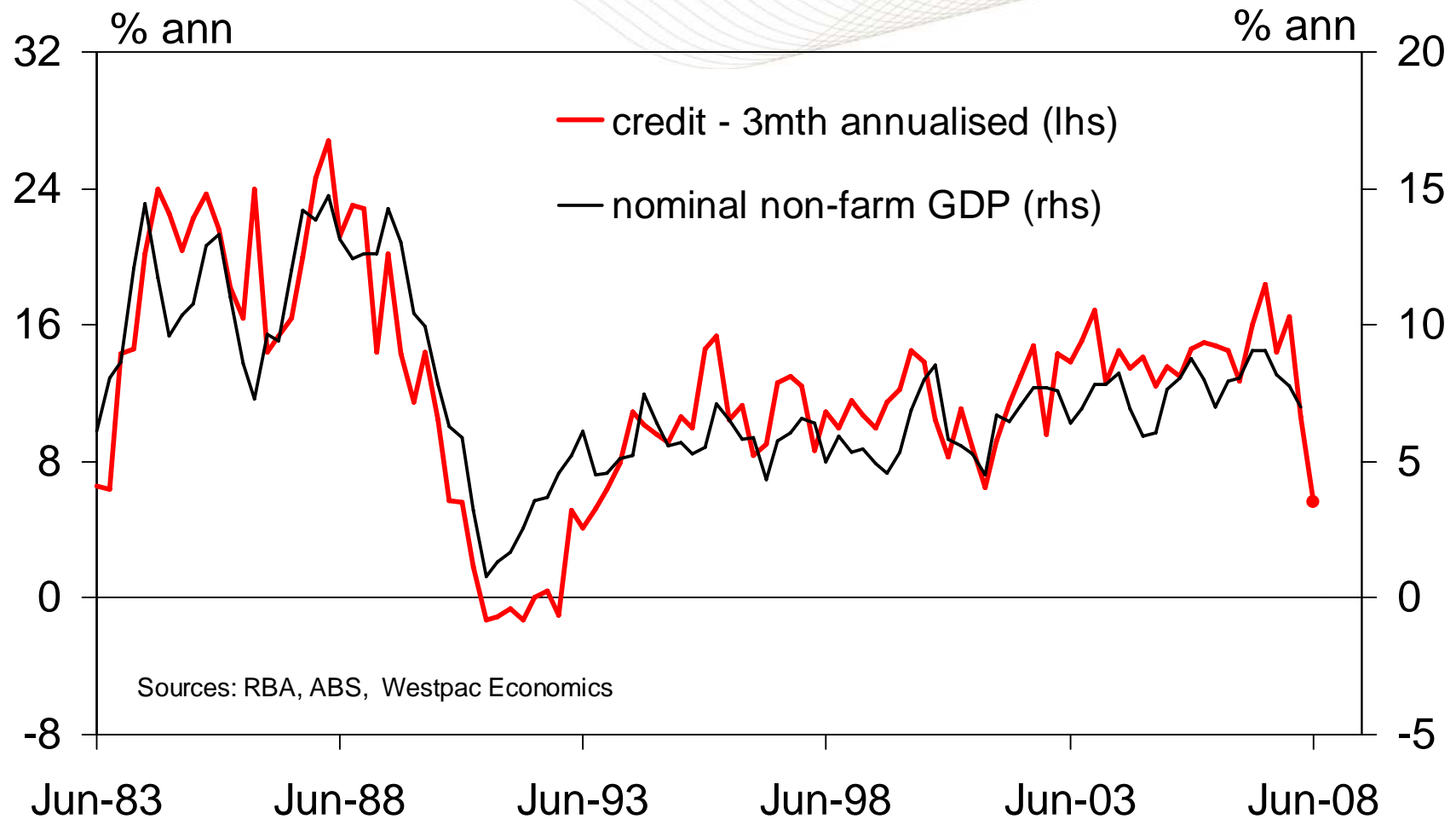


CPI inflation: RBA core has hit 4.4%yr

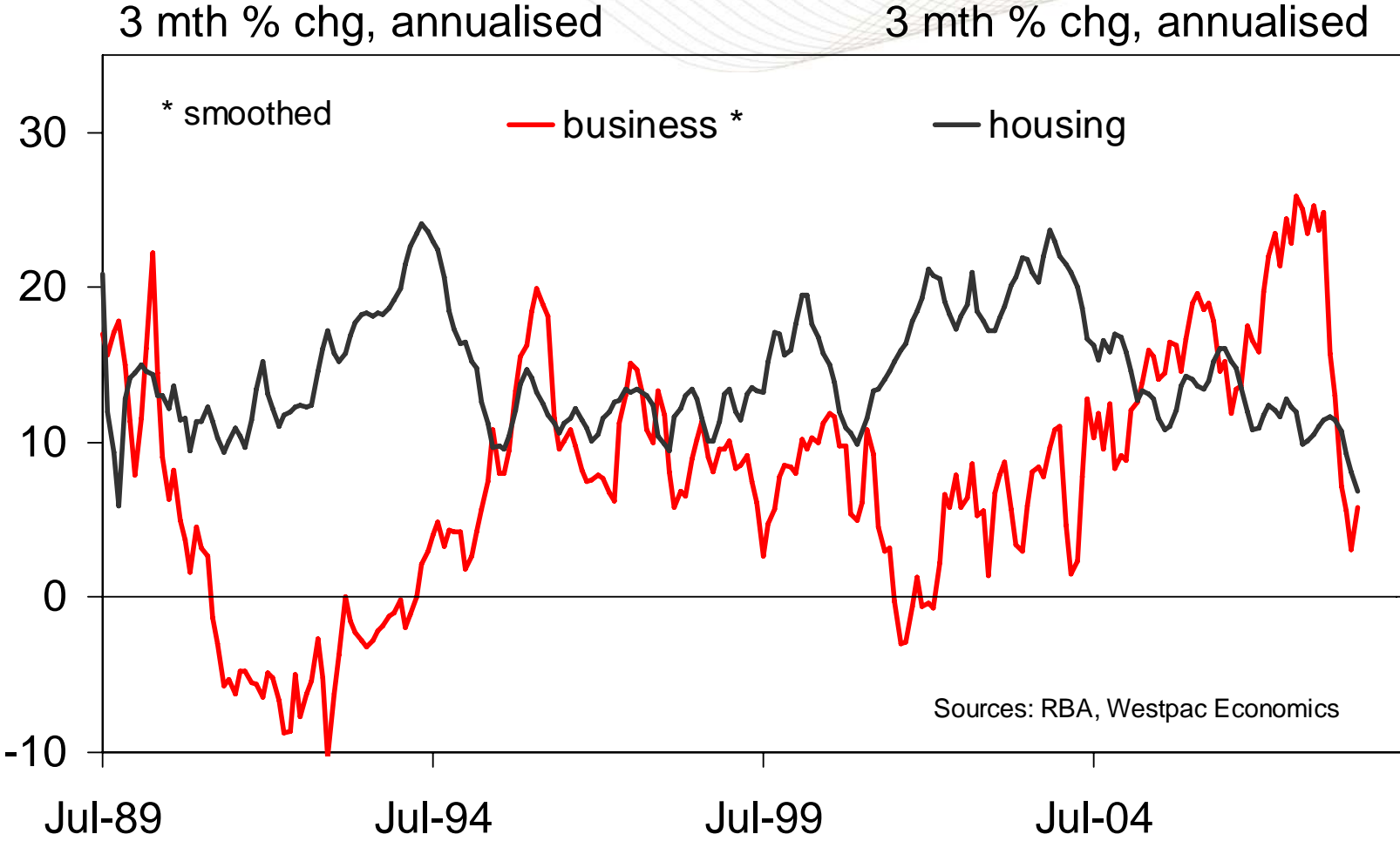


Sources: ABS, RBA, Westpac

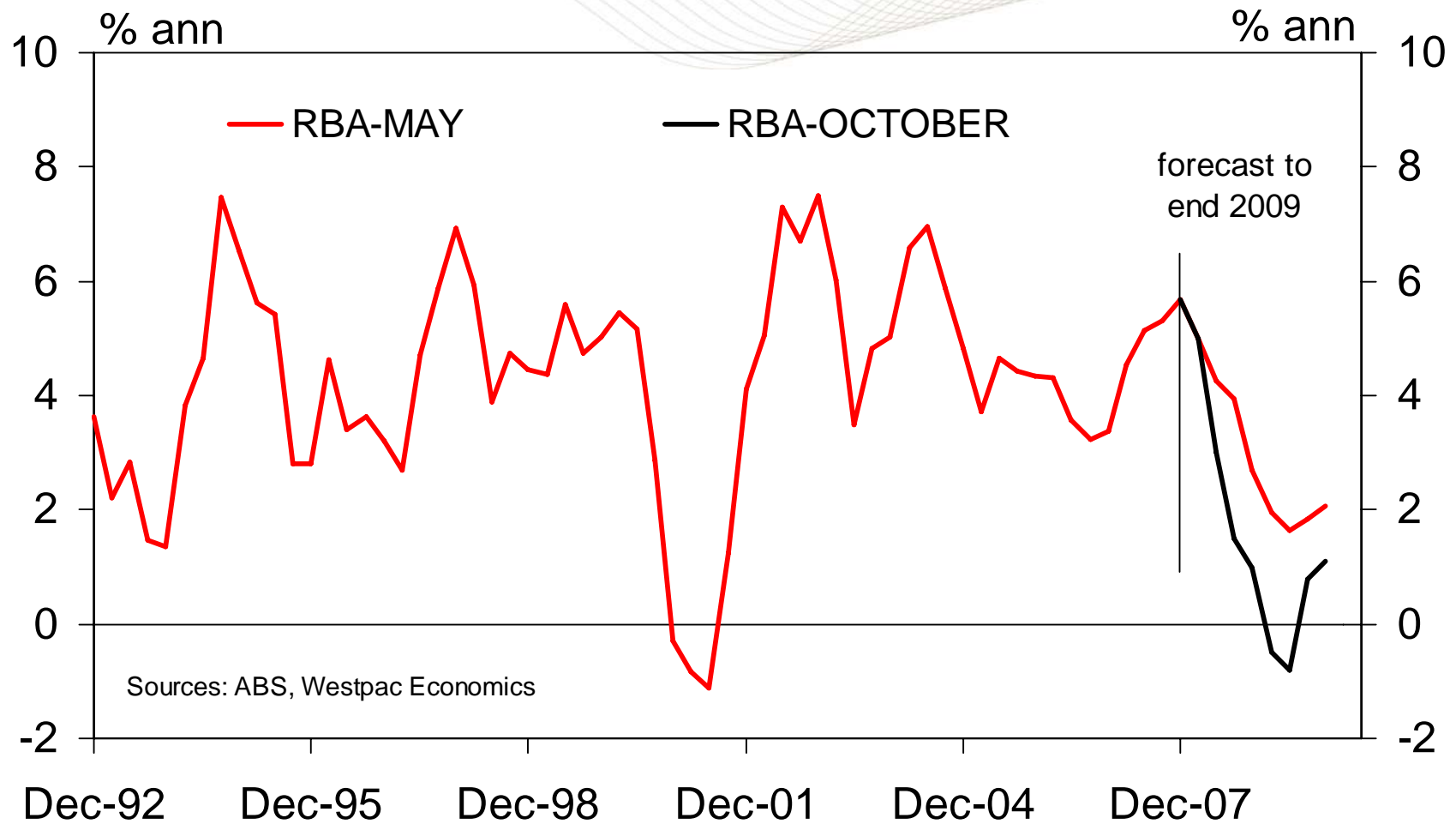
Credit collapse threatens nominal activity



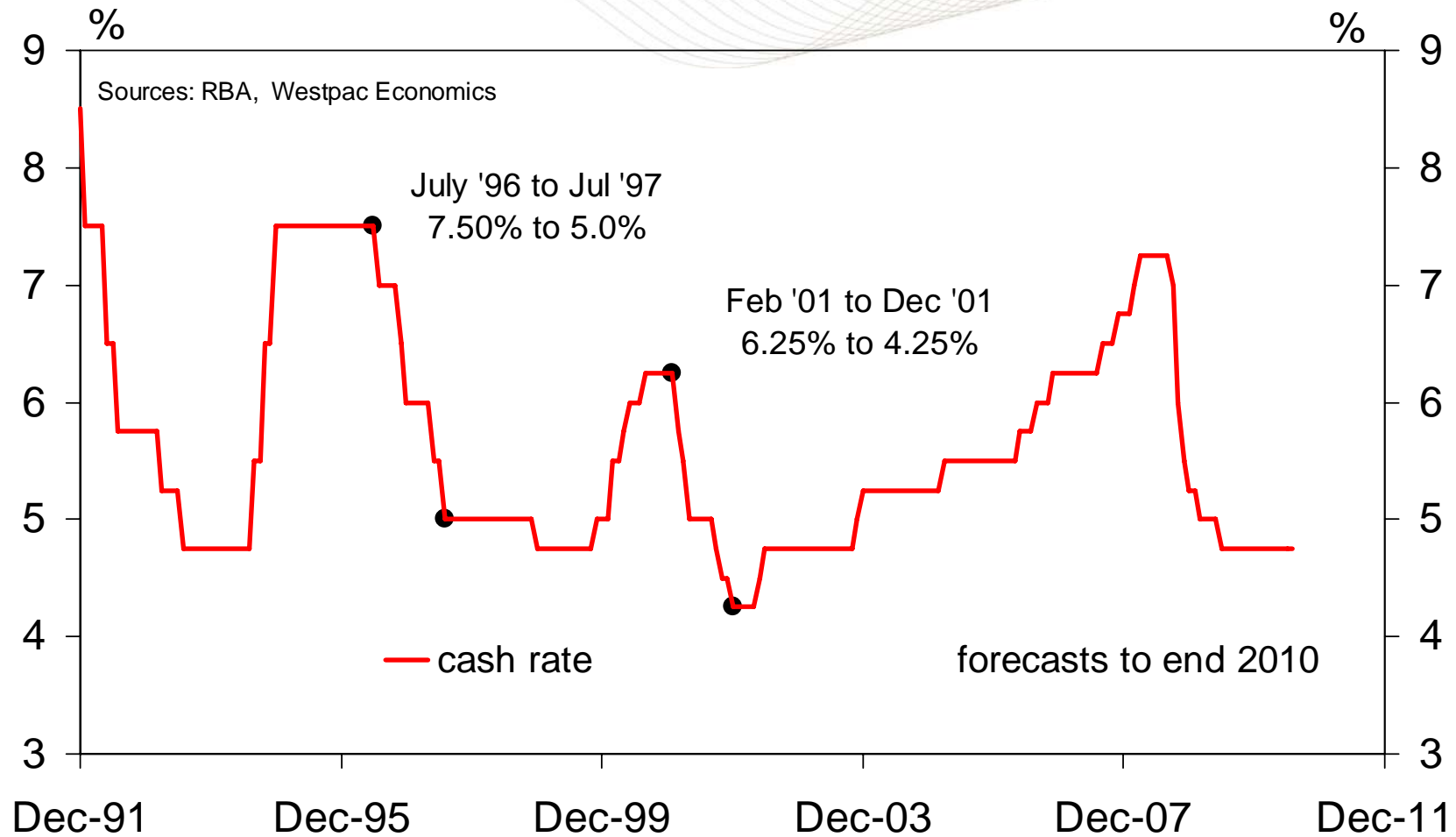
Business credit unwinds; housing dismal



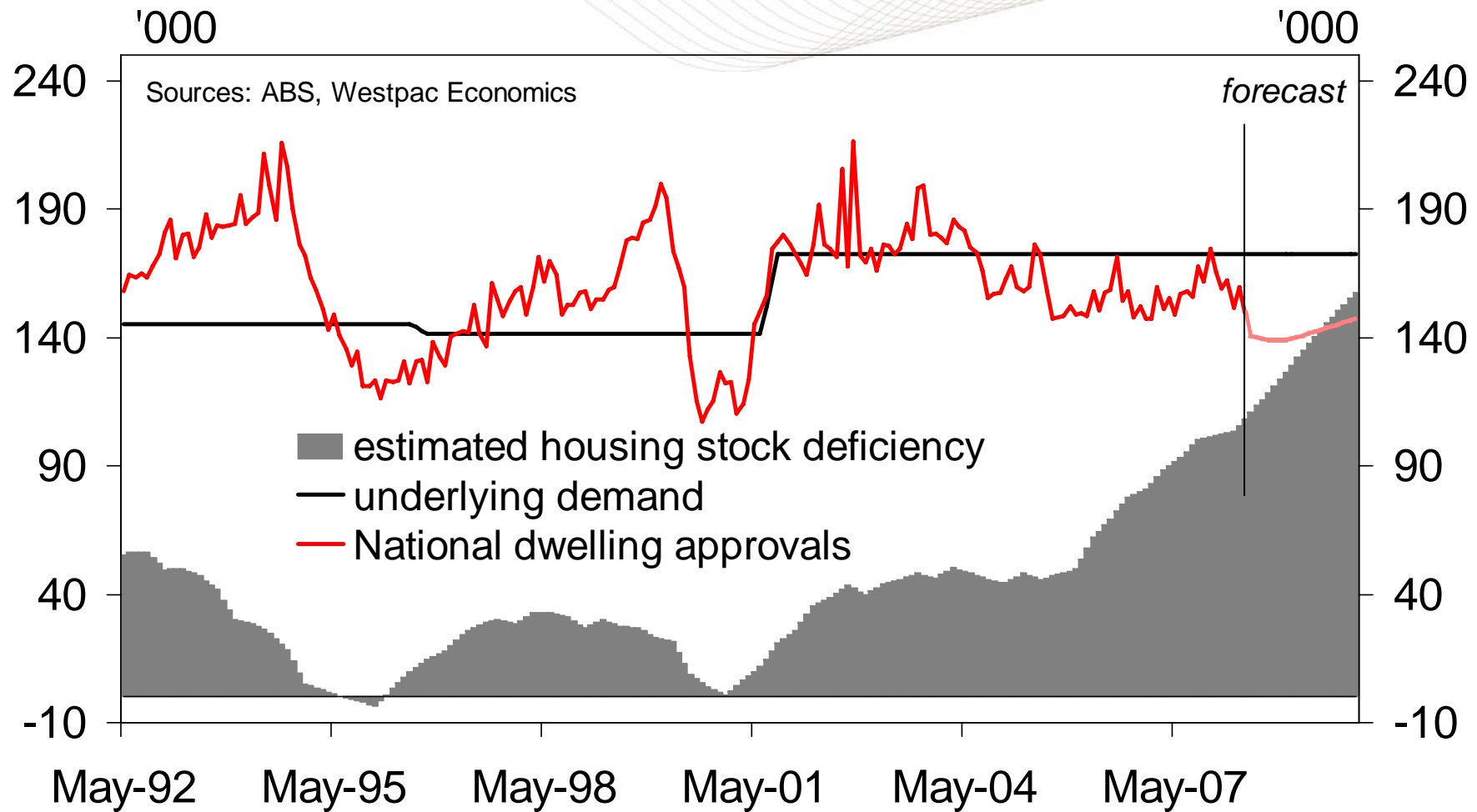
RBA wants to avoid a recession in 2009



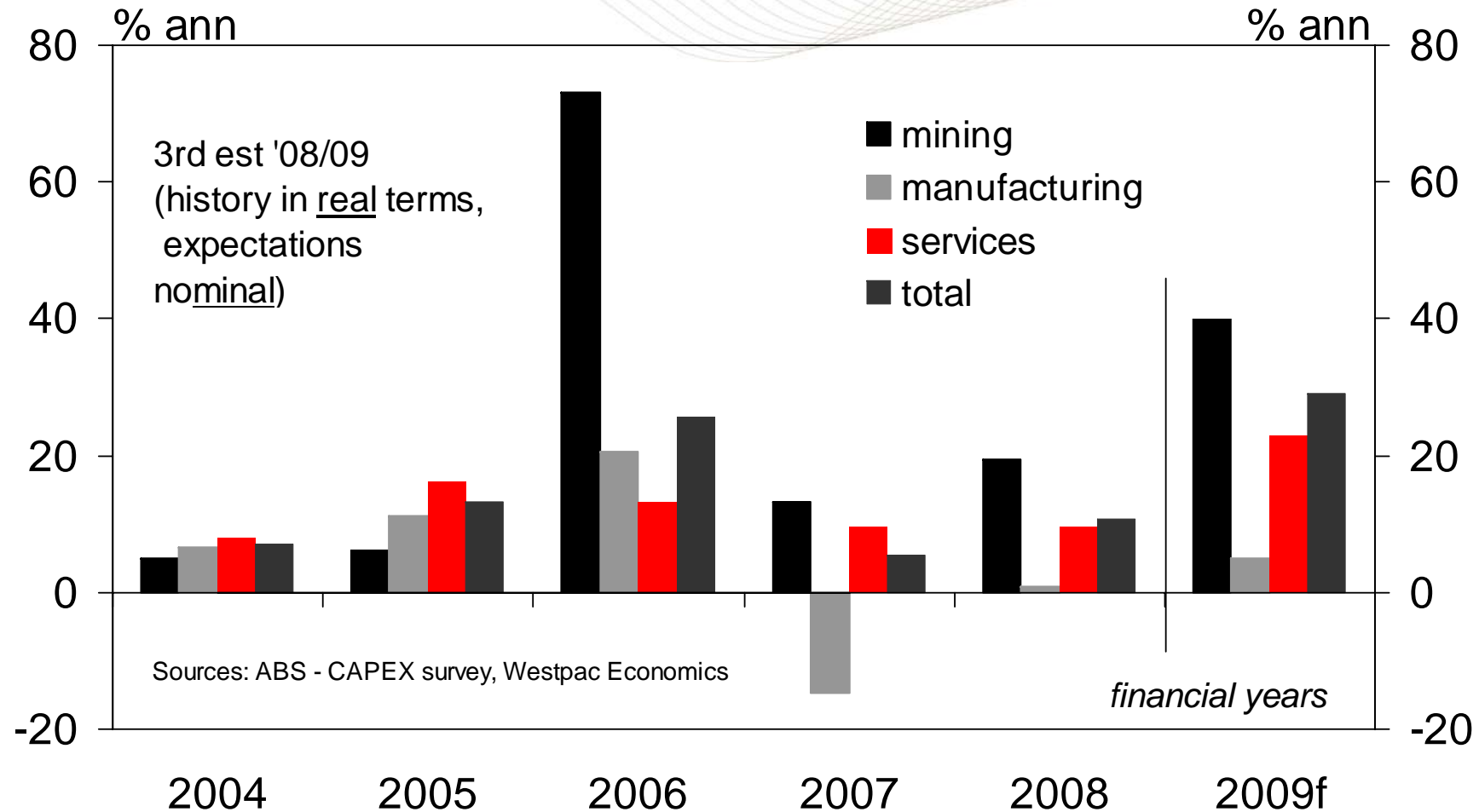
RBA to cut rates to 4.75% in 2009



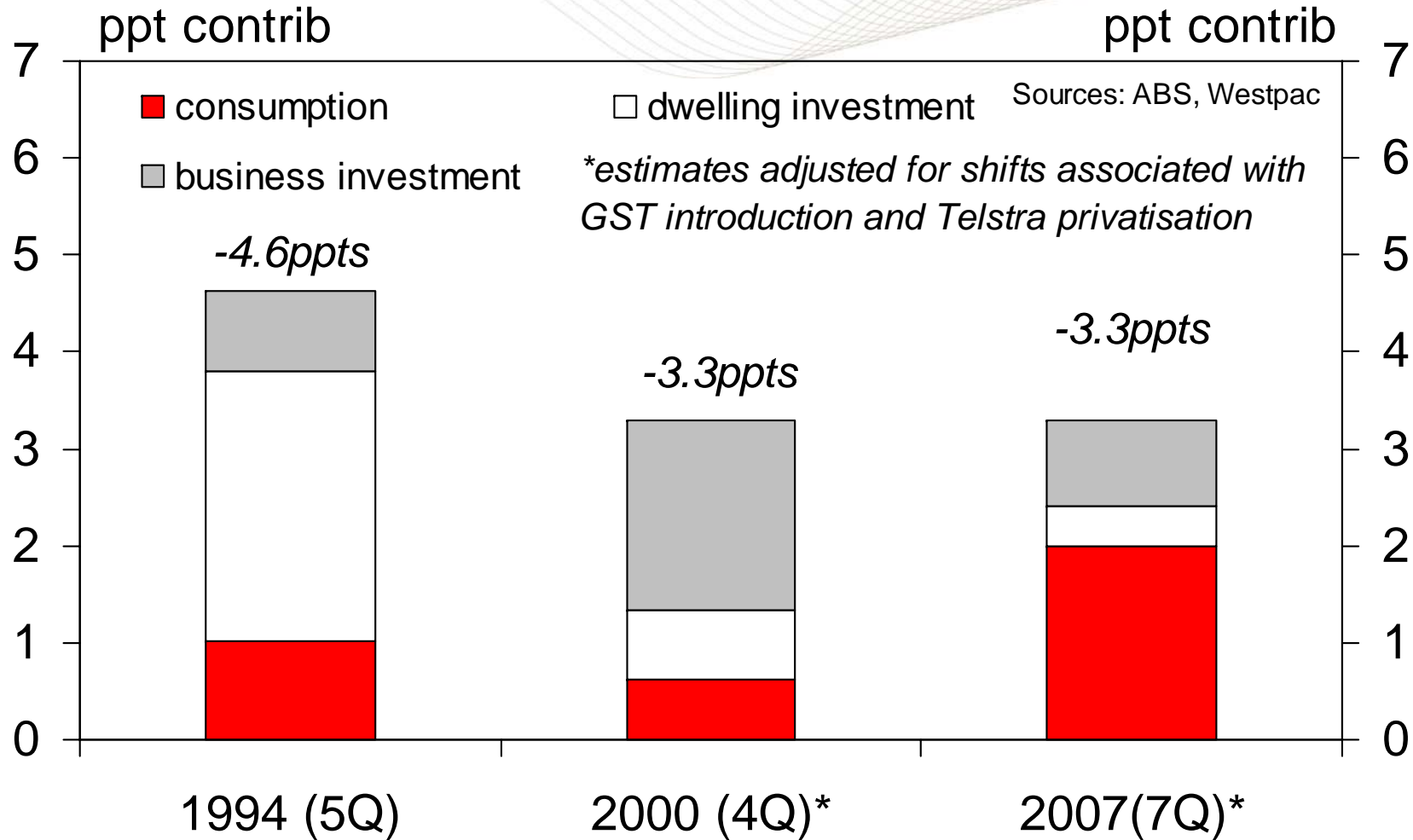
House construction way below demand



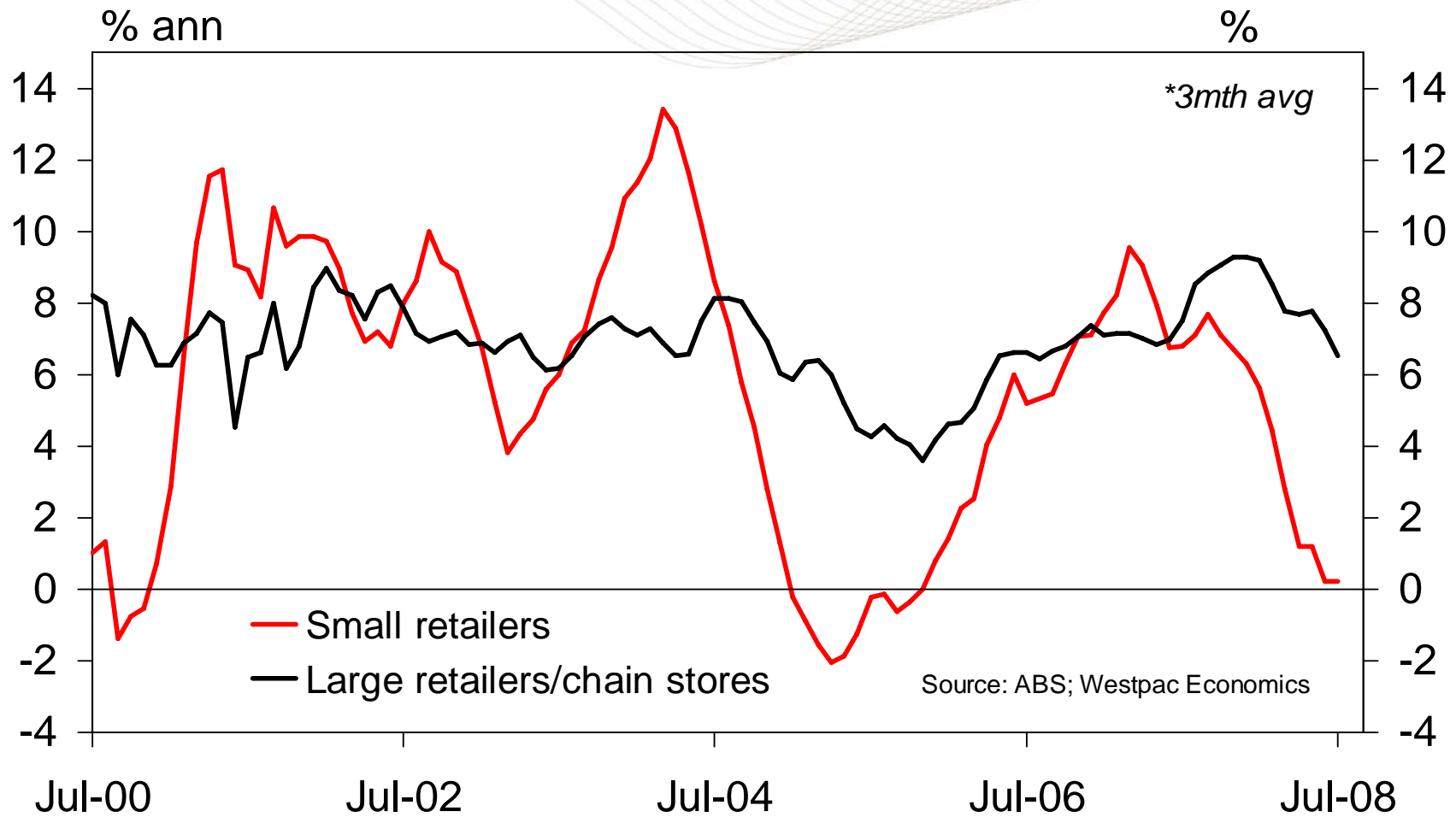
Investment plans are unrealistic



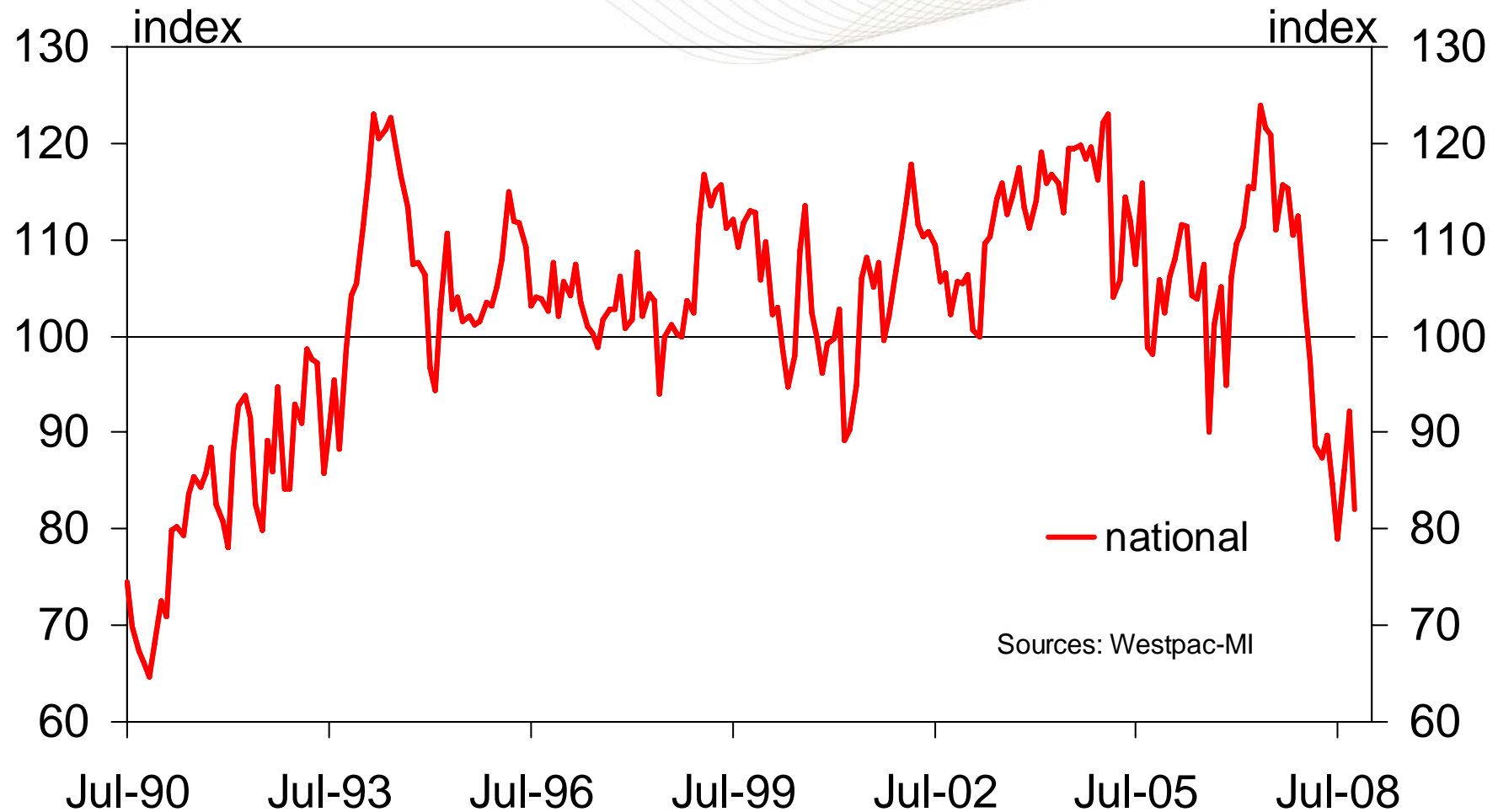
Consumer will explain most of slowdown



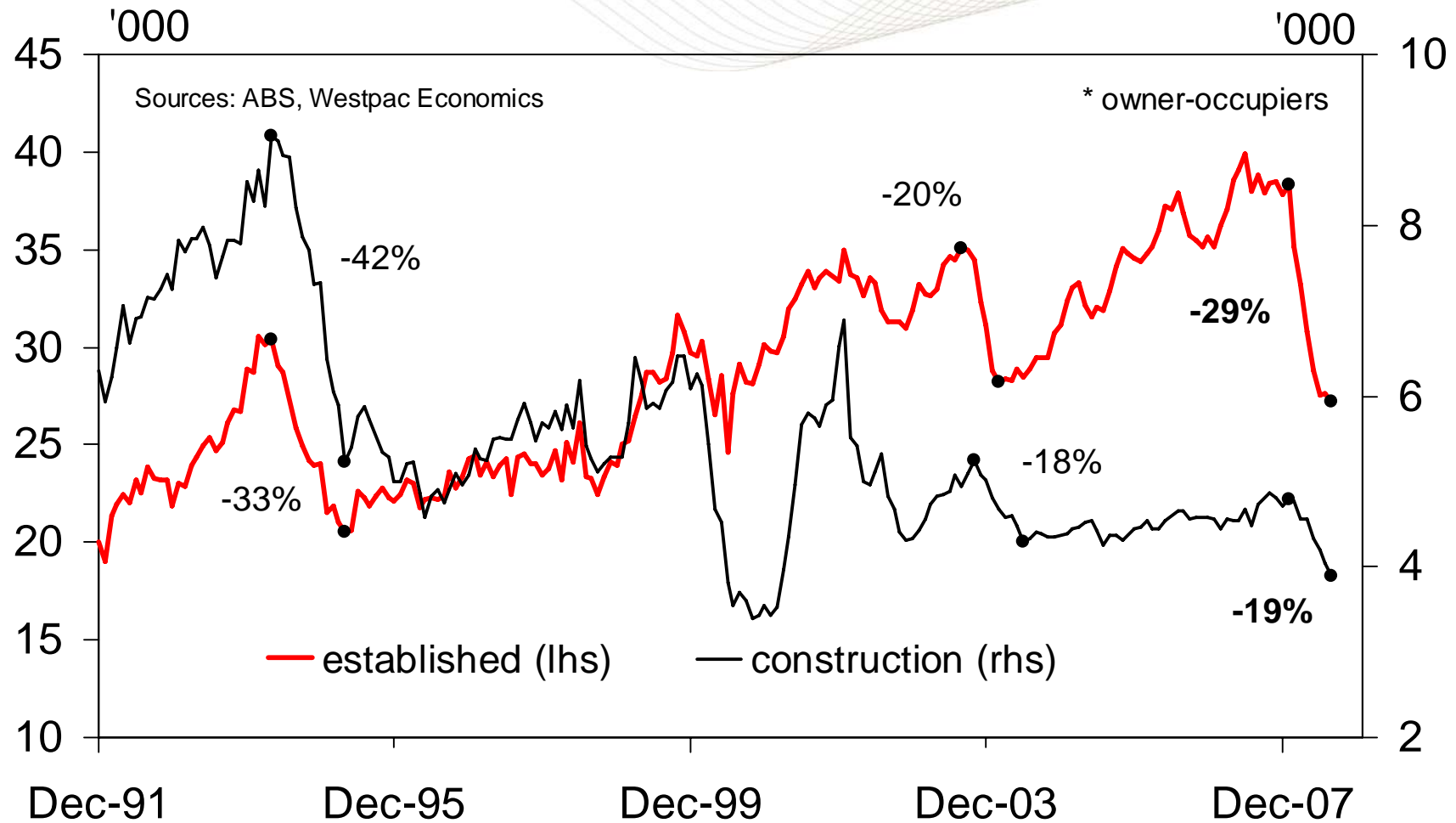
Small retailers hit hardest- no respite!



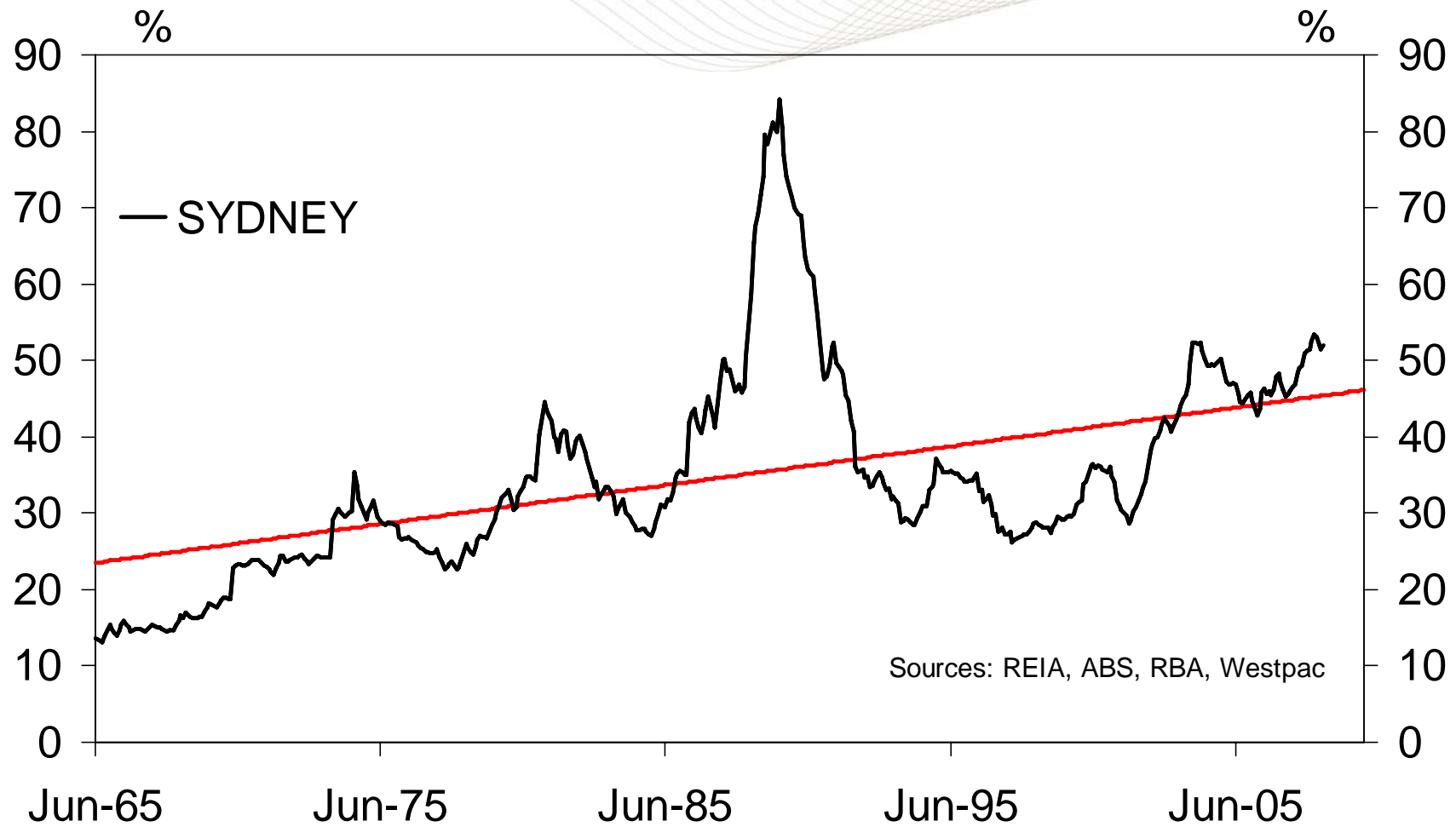
Consumer Sentiment back near 16 year lows



Housing finance is tumbling as credit tightens



Housing affordability points to price falls



Where's the pain?

Ten worst postcodes for arrears: 2008Q1

- 2164 NSW Wetherill Park 6.7%
- 4212 QLD Helensvale 6.4%
- 2760 NSW St Marys 6.3%
- 2758 NSW Kurrajong 6.1%
- 2161 NSW Guildford 6.0%
- 2196 NSW Punchbowl 5.3%
- 2528 NSW Lake Illawarra 5.2%
- 2190 NSW Greenacre 5.2%
- 2766 NSW Rooty Hill 5.1%
- 2165 NSW Fairfield 5.0%

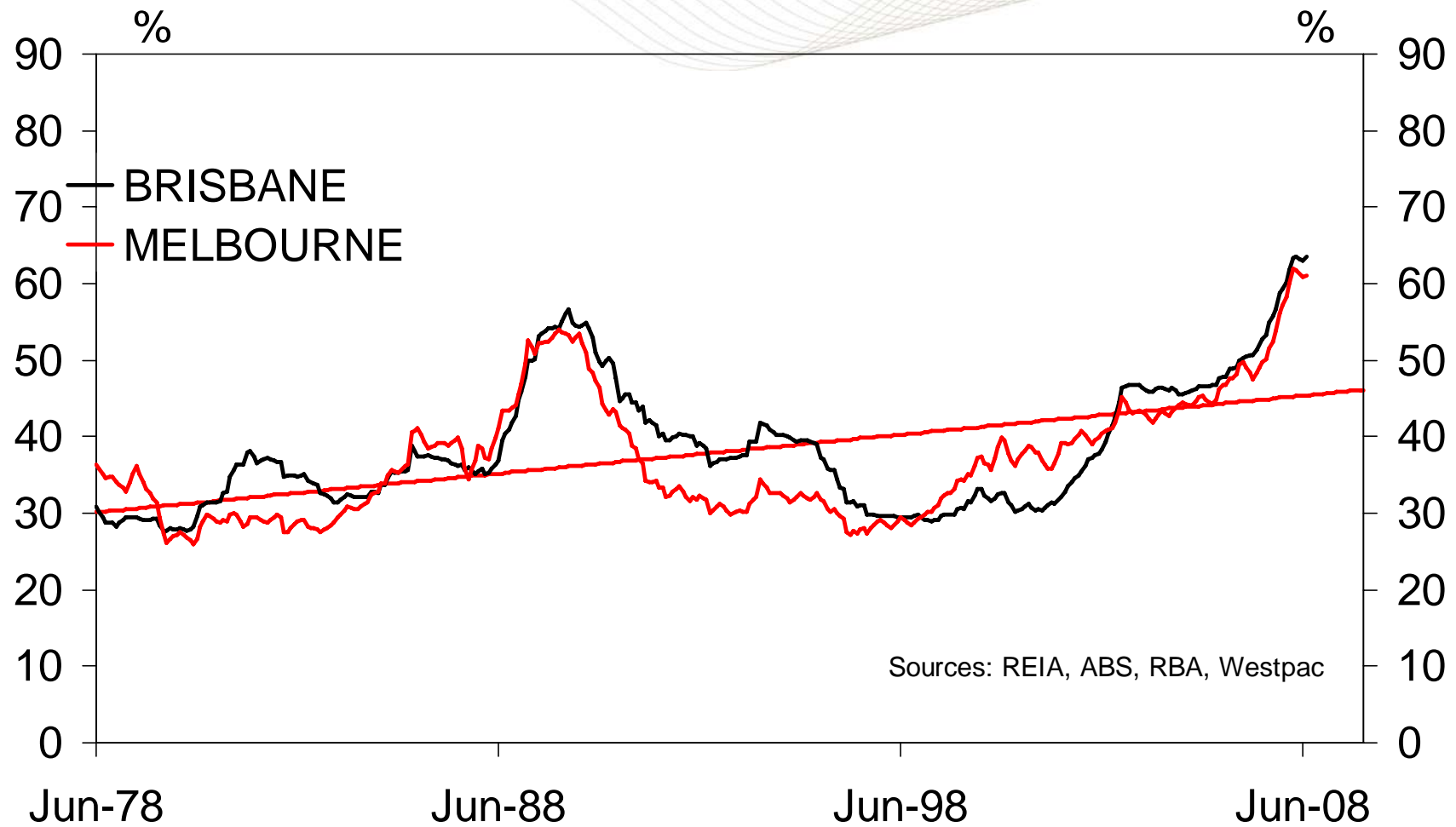
NSW average arrears rate: 2.32% (90+ days, 0.73%)

Australia average arrears rate: 1.88%

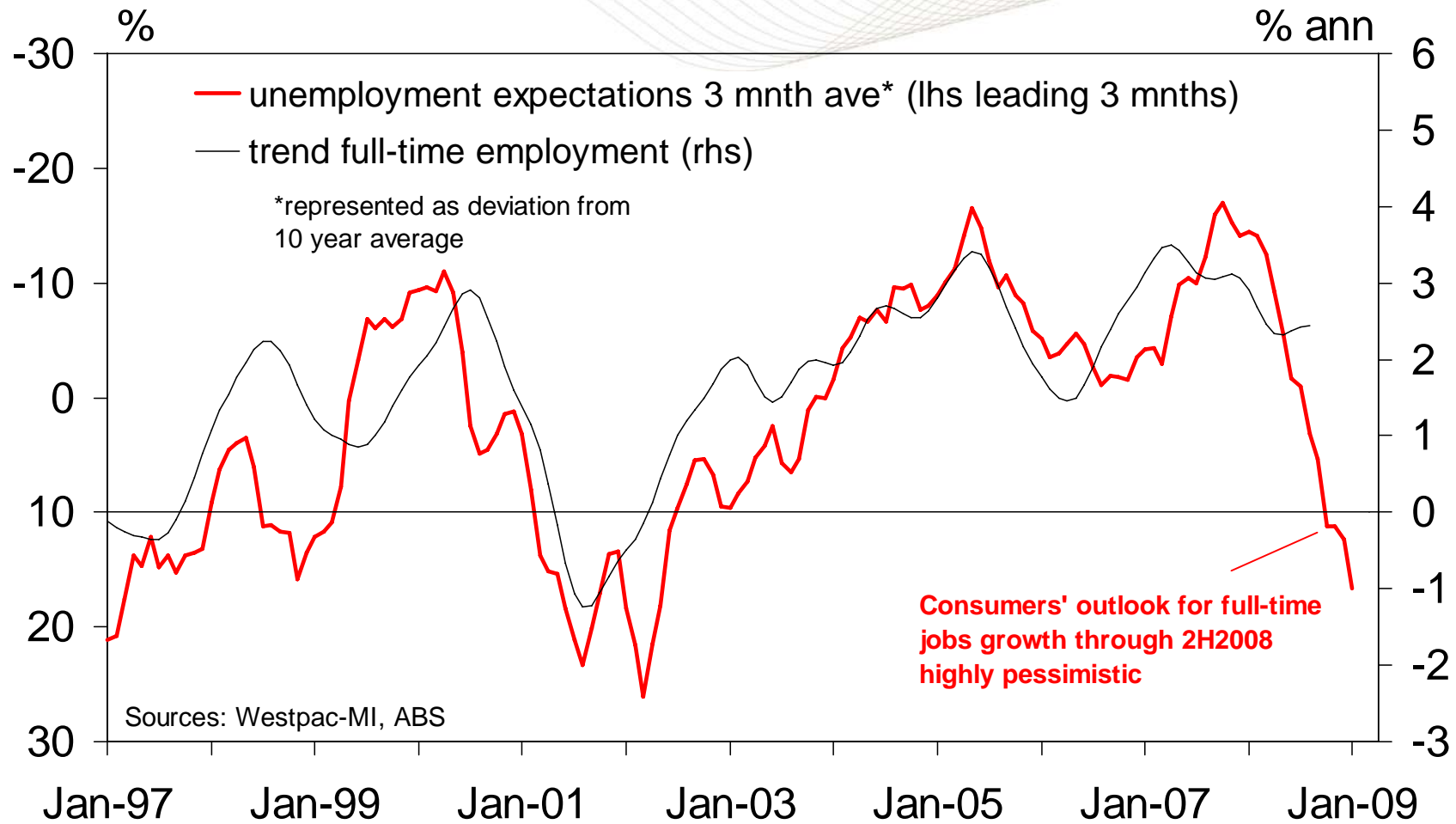
**...arrears
worsening and
broadening to
other Sydney
suburbs**

Source: Fitch Ratings

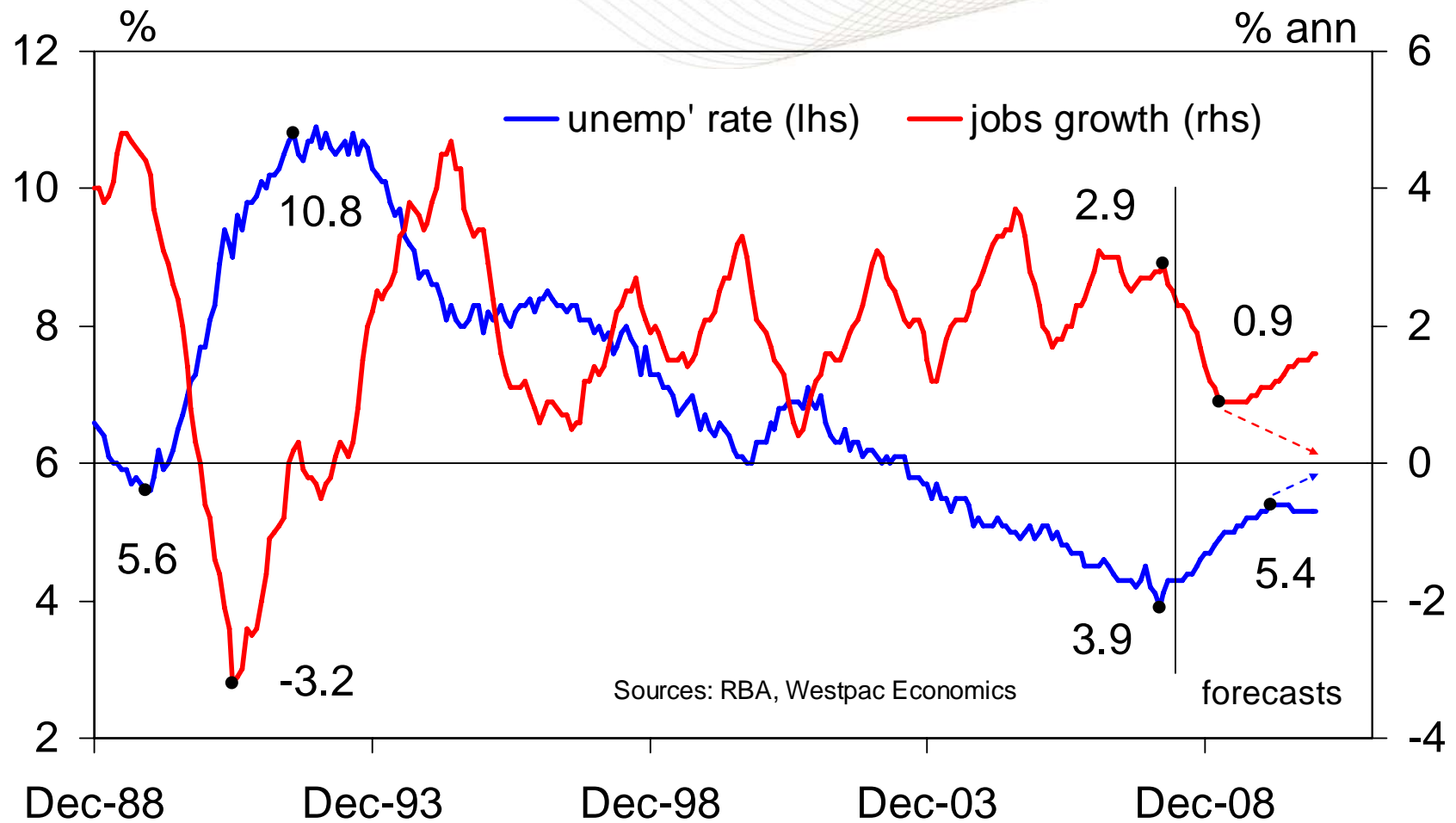
Affordability- trouble for Bris and Melb



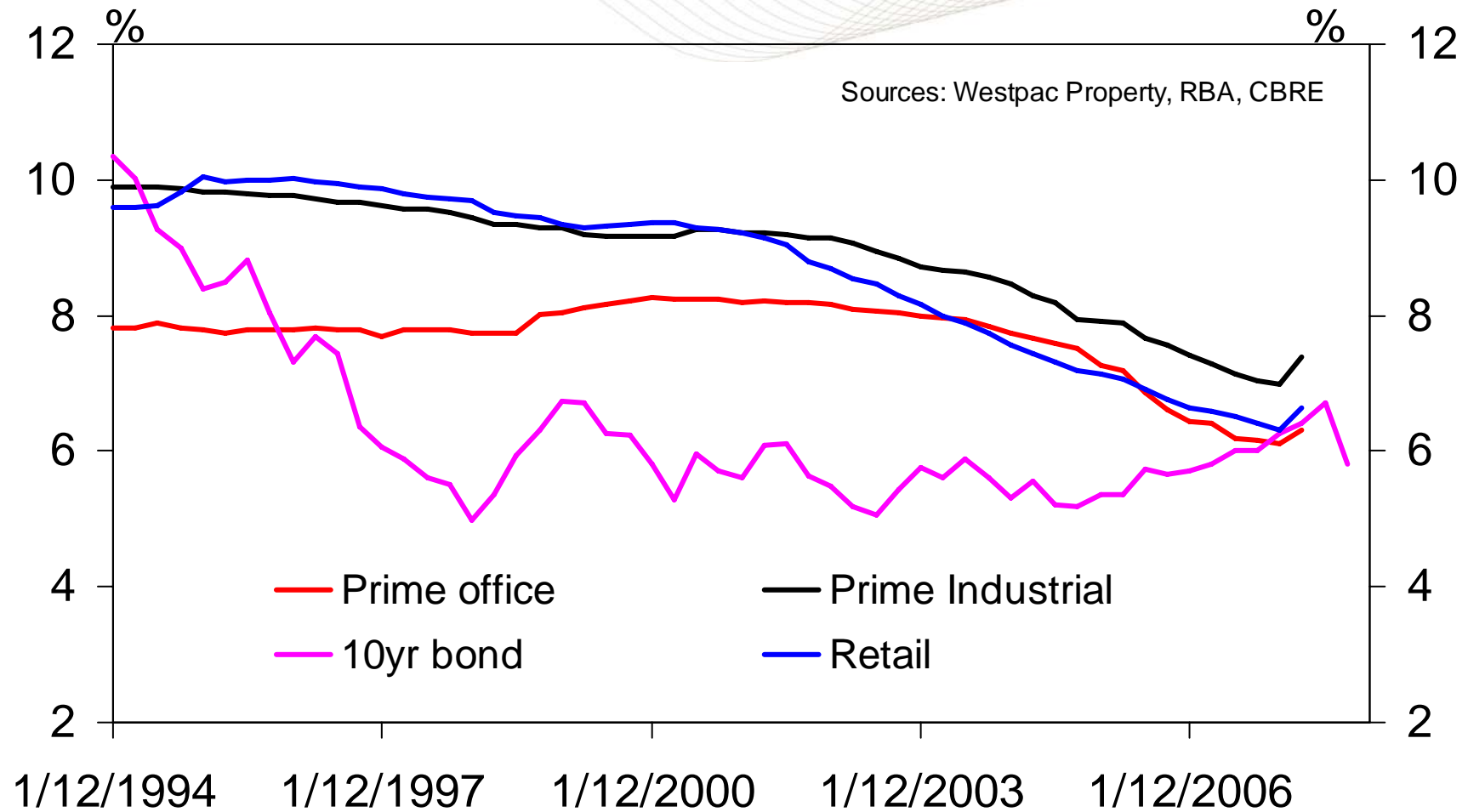
Westpac-MI unemployment expectations



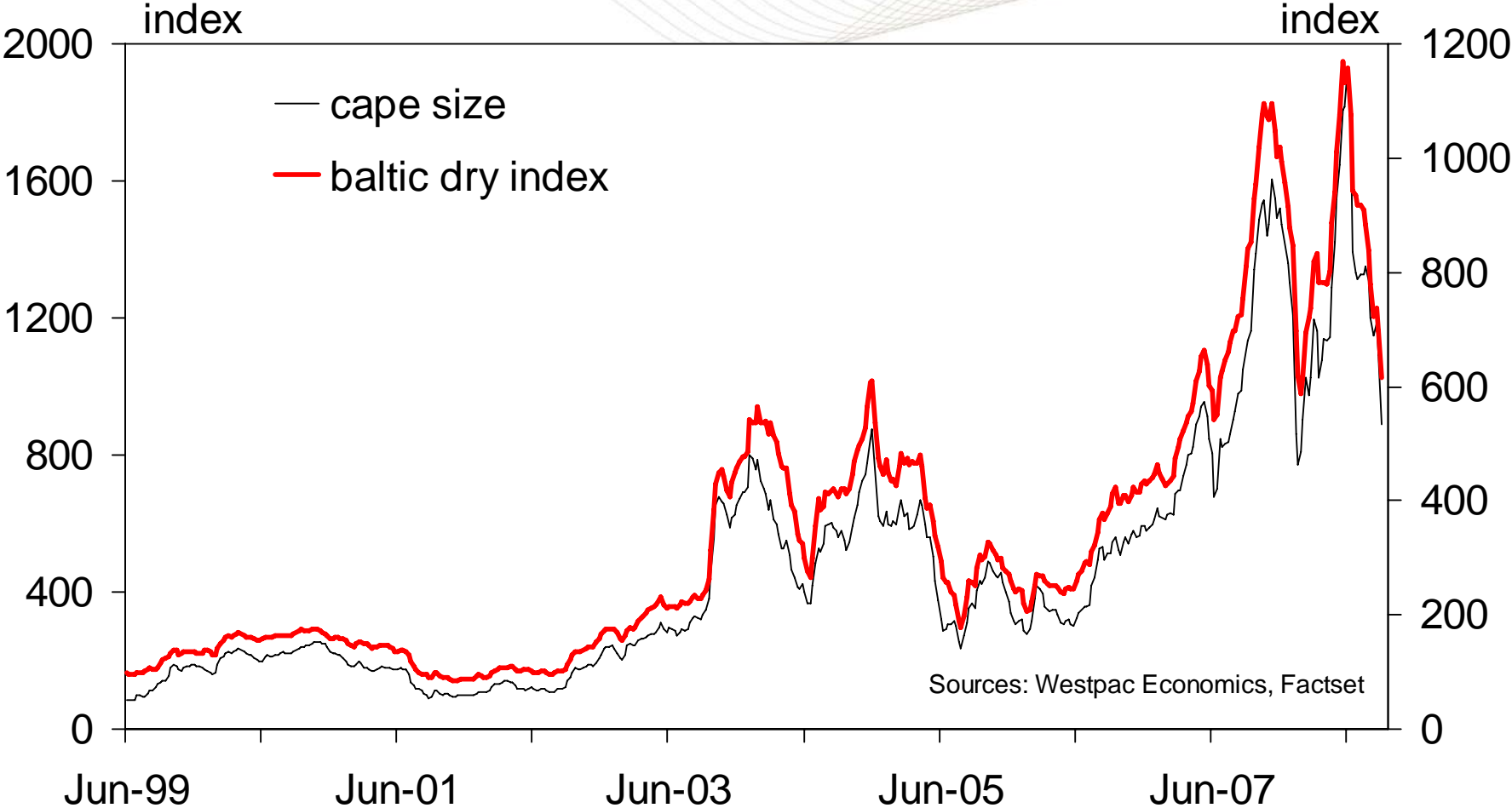
Labour market – unemployment to rise



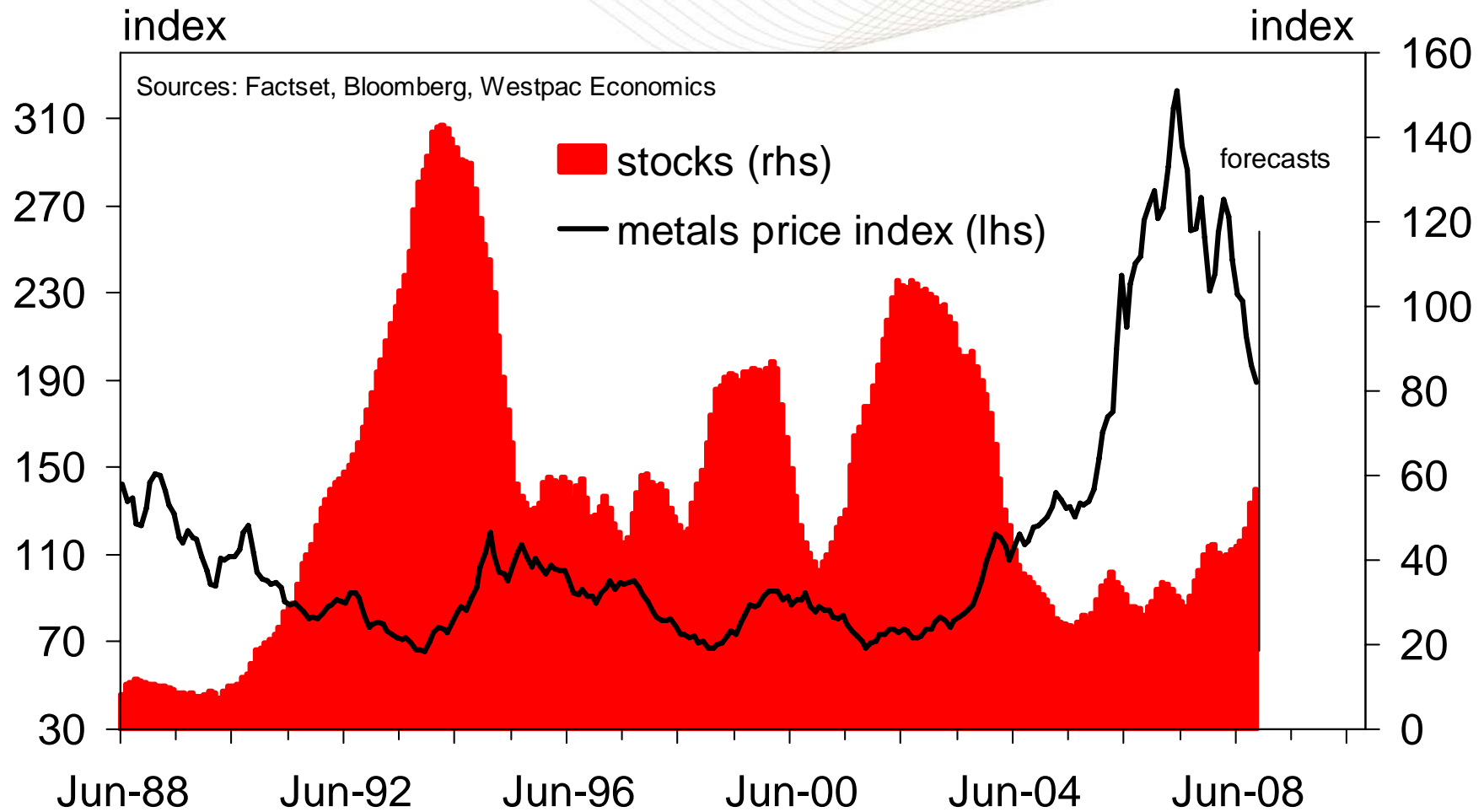
Yields must rise – retail the weakest sector



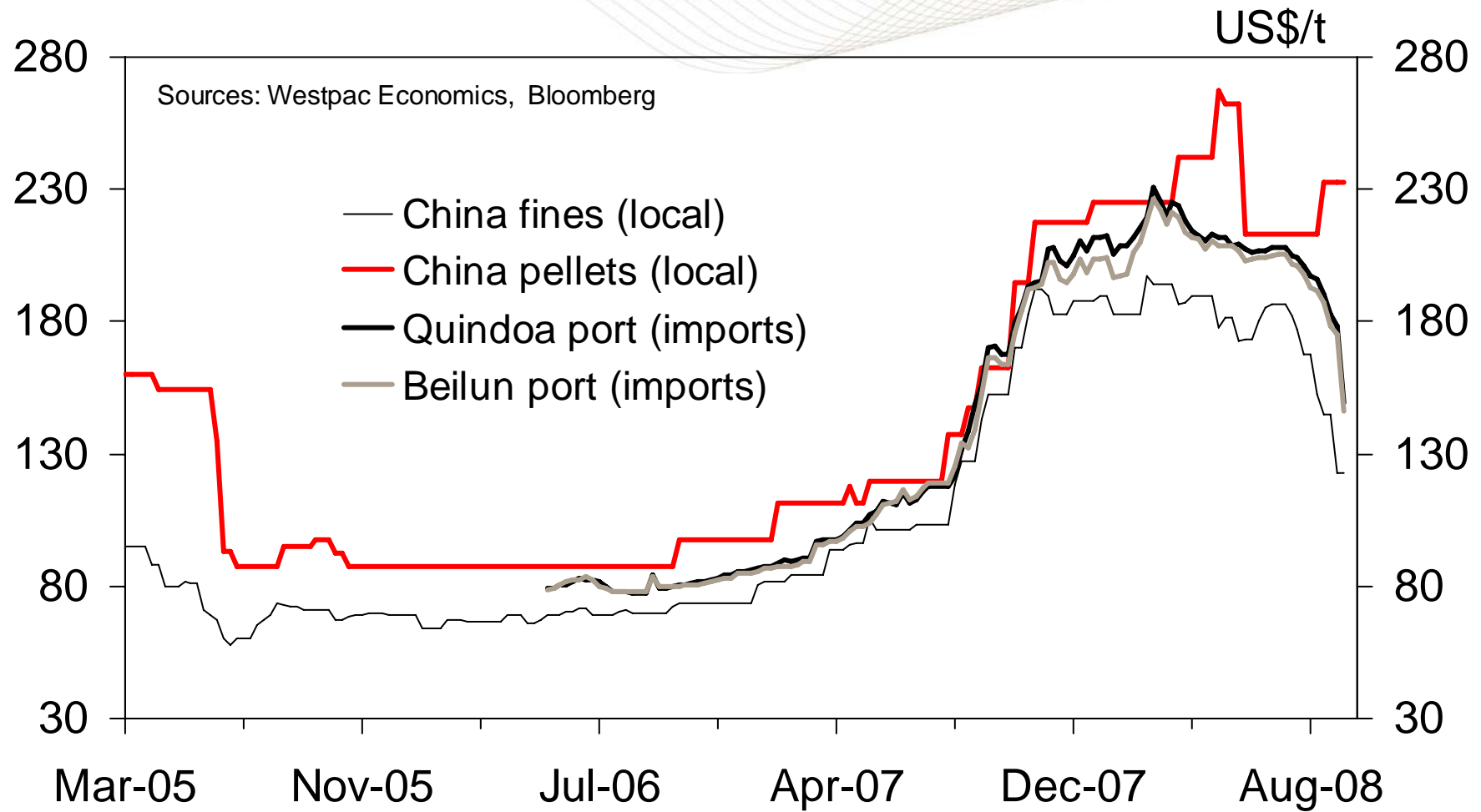
Freight costs back to 2007 lows



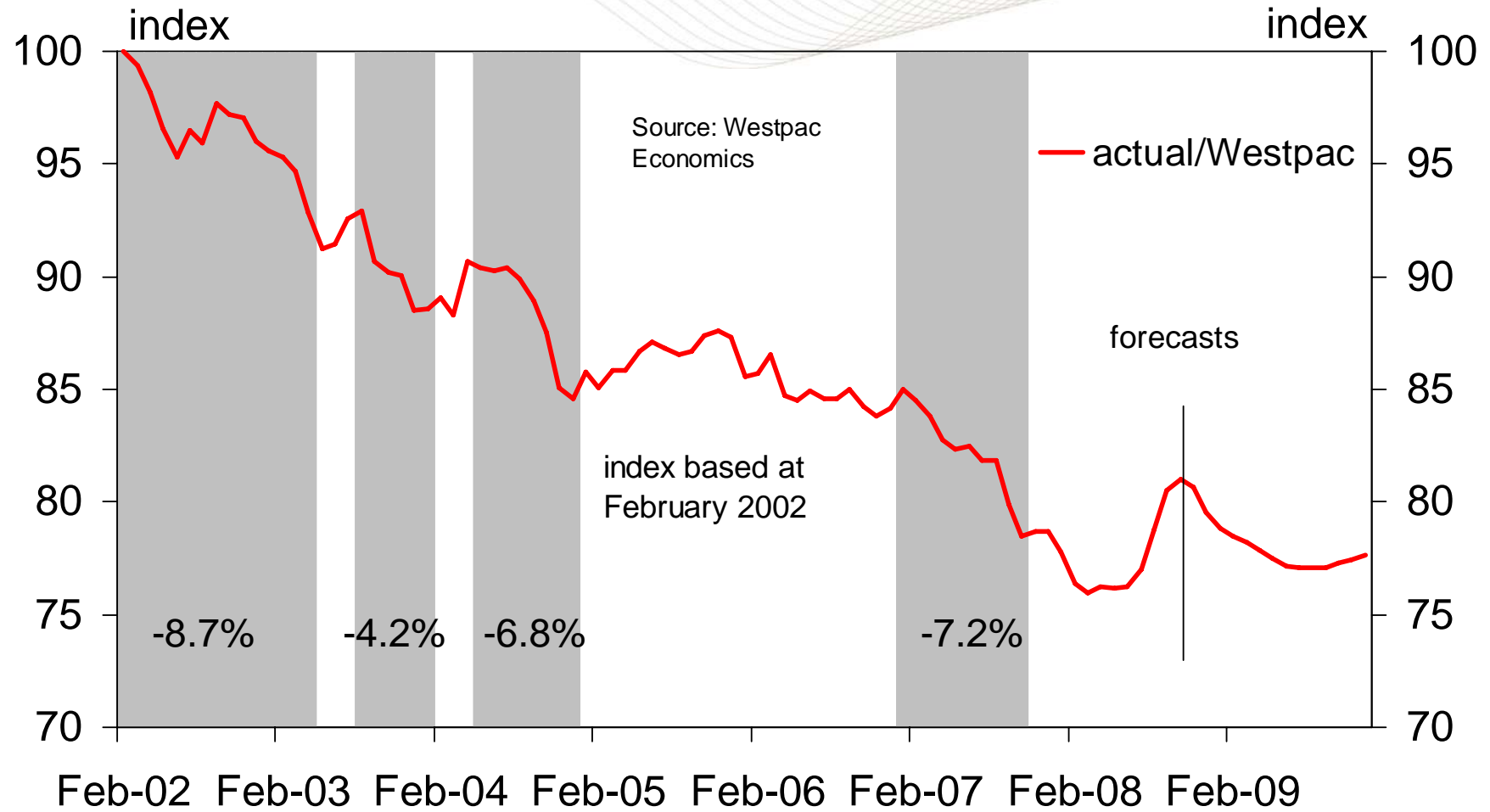
Westpac LME metals inventories index



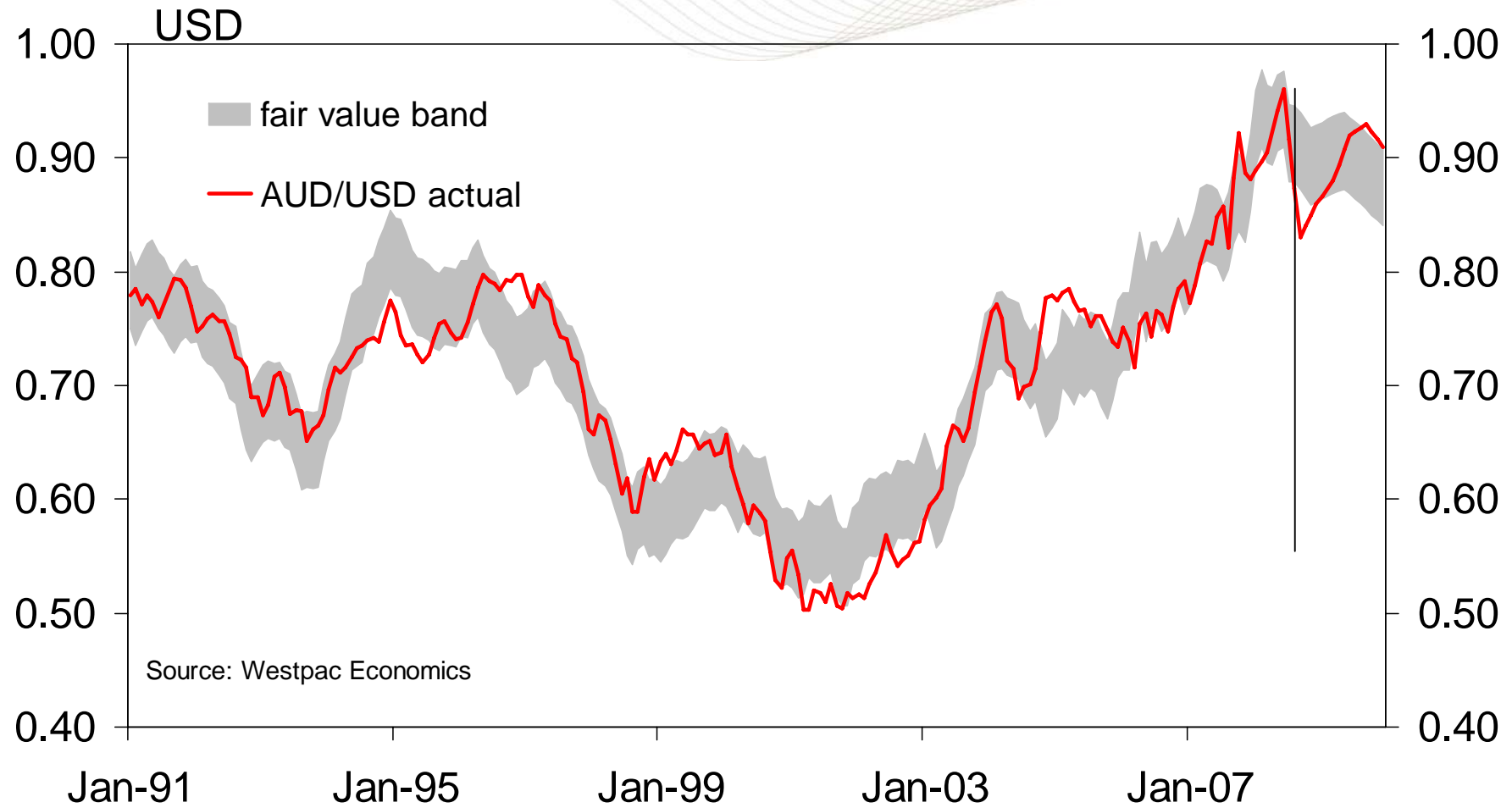
Chinese iron ore prices (-36% March 08)



Broad nominal USD index – to turn back



Australian dollar model- undervalued



Summary

- World economy guaranteed to slow due to advanced recessions
- Developing world will surprise with better than expected growth
- US banking system cannot finance recovery
- Credit spreads will widen further as banks take more losses
- Australian economy will avoid recession but remain weak
- Consumer will accommodate most of slowdown
- Australian banks are in good shape and can support growth
- Local share market is undervalued only resources can defy US

Summary continued

- Housing and commercial property prices will fall.
- Rates will be cut by another 125 bp's – banks funding pressure
- Large fiscal stimulus coming in 2009
- Fed will cut to 1% or less
- Commodity prices can be supported by developing world
- AUD up in 2009– USD more to fall as that economy suffers
- Australian economy and AUD will outperform US and USD.

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