

COMPARING OUTLOOKS - ACCESS & MELB INSTITUTE

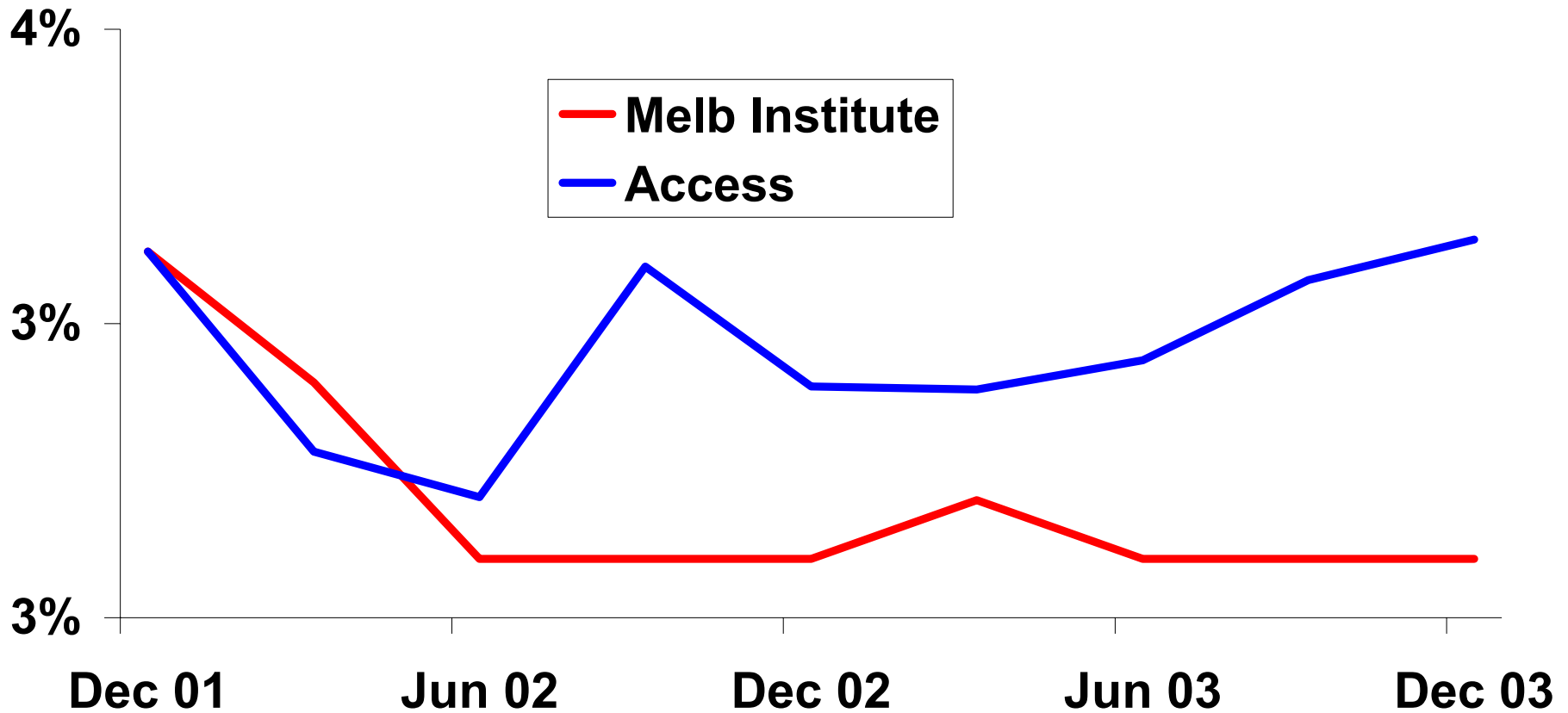
Access expects inflation to be higher for longer than does the Melbourne team, as key sectors rebuild margins amid robust growth. That is why we see short term rates rather higher too, and wouldn't be surprised to see Federal Budget cuts. Even so, we also expect GDP growth to be stronger for longer, driven by our relatively bullish views on business investment.

INFLATION OUTLOOK

An economy going gangbusters is one at risk of inflation. GST-adjusted underlying inflation rates are closer to 4% than 3% in the last year, and further good growth in prospect means they may be slow to come to heel. But the \$A is quiet and labour costs are too, while upstream price pressures have dropped off markedly (in the main as the fall in petrol prices has not yet fully worked its way through). That points to steady inflation, but Access is very wary of upside risks.

INFLATION OUTLOOK

Headline CPI inflation

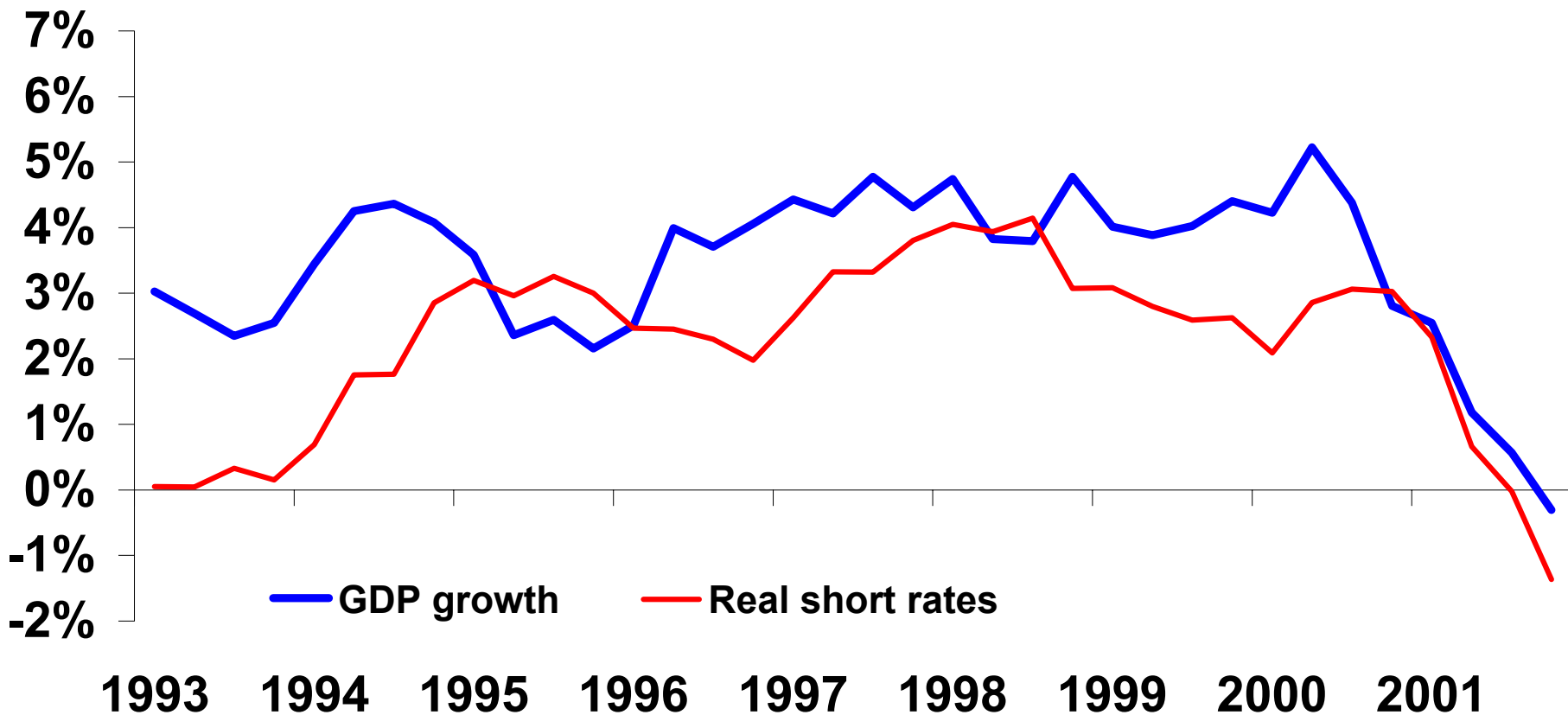


INTEREST RATE OUTLOOK

In the US, with rates at 'emergency lows', rates may have to rise almost 4% between now and late 2003. In Australia rates never fell as much, and the likely rise is probably only 1¼-1½% by mid-2003. In both nations the pace of rate rises rides on the slack there is in unemployment (or, in other words, how much central bankers will risk a rise in inflation pressures). If the RBA is too slow, then the requisite rise in rates in 2003 will be sharper and more painful.

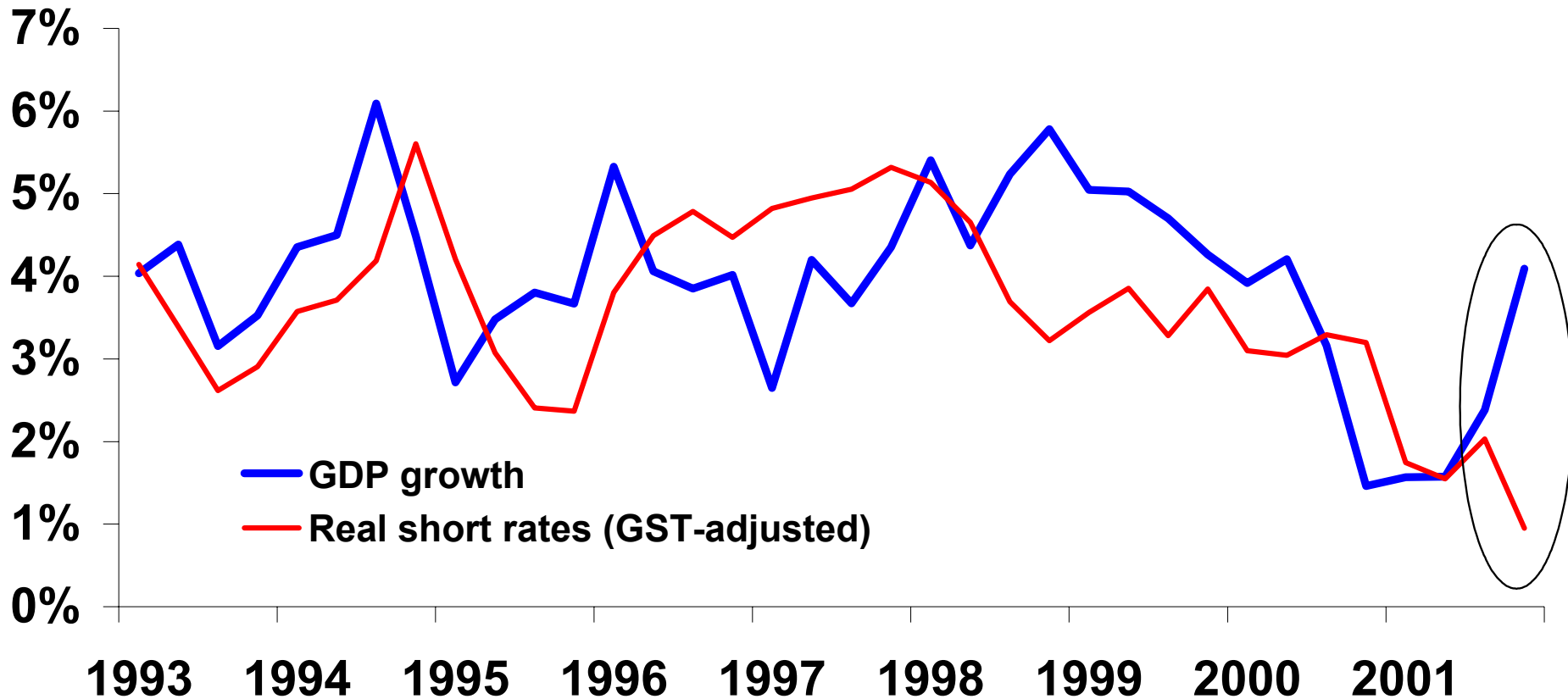
INTEREST RATES IN THE U.S.

US GDP growth vs real short rates



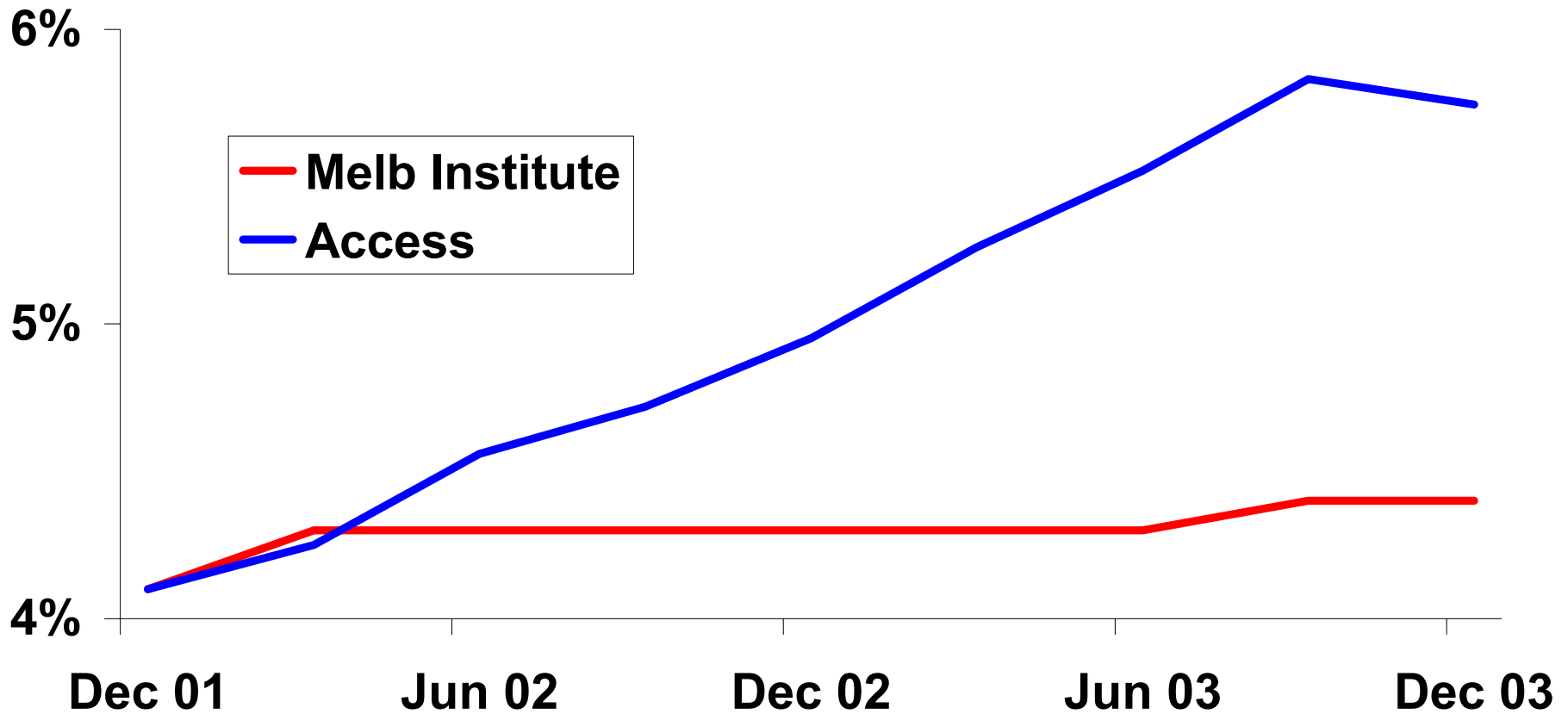
INTEREST RATES HERE

Australian GDP growth vs real short rates



INTEREST RATE OUTLOOK

Short term interest rates

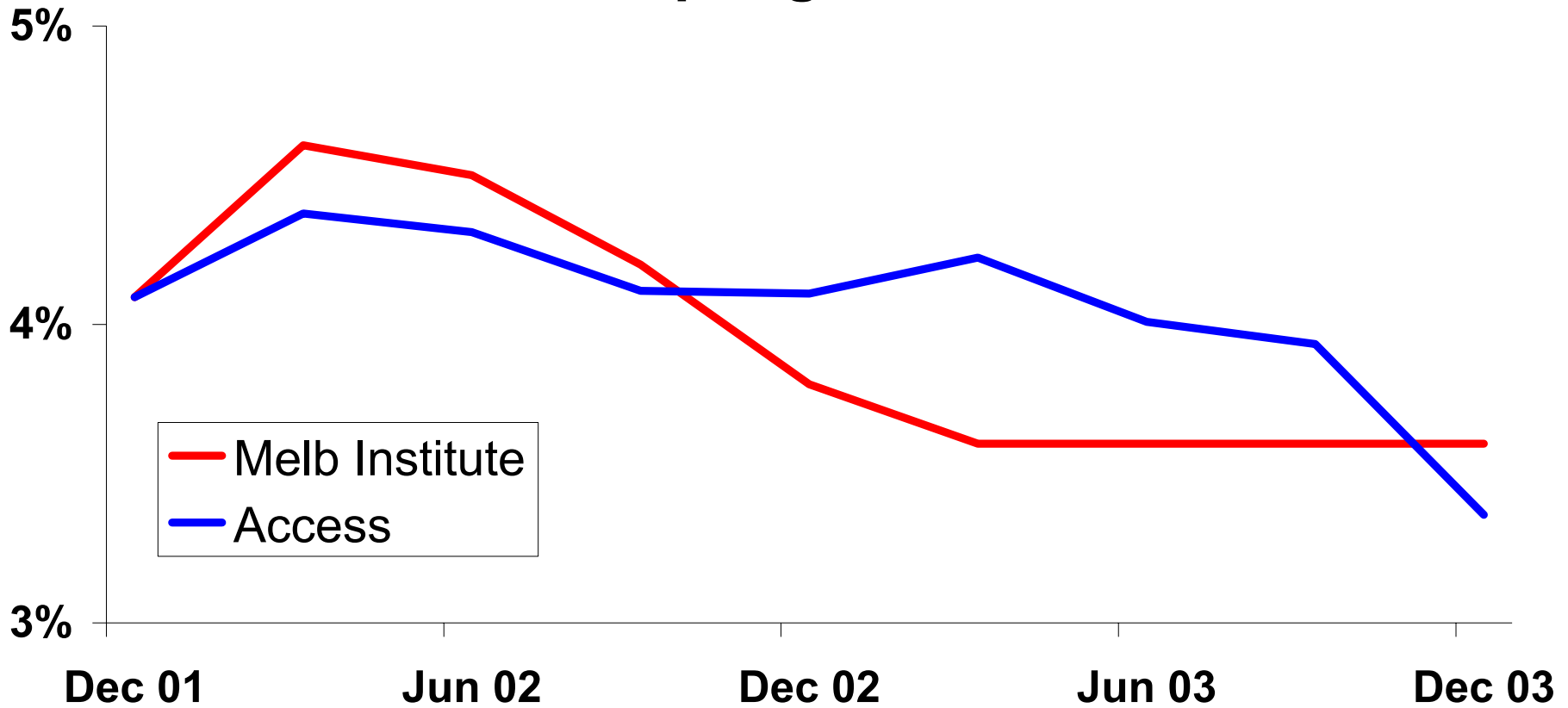


ACTIVITY (GDP) OUTLOOK

Australia's rapid GDP growth has occurred as the Reserve Bank has set real interest rates at record lows, while the Federal Government is pouring billions of taxpayers' money onto the economy. A competitive \$A and lower petrol prices have also been key props for growth. Growth will stay rapid in 2002 and solid in 2003, as strength passes from housing to retail and to business capex – with those also boosted by a need to restock shop shelves and a global recovery.

ACTIVITY (GDP) OUTLOOK

Output growth

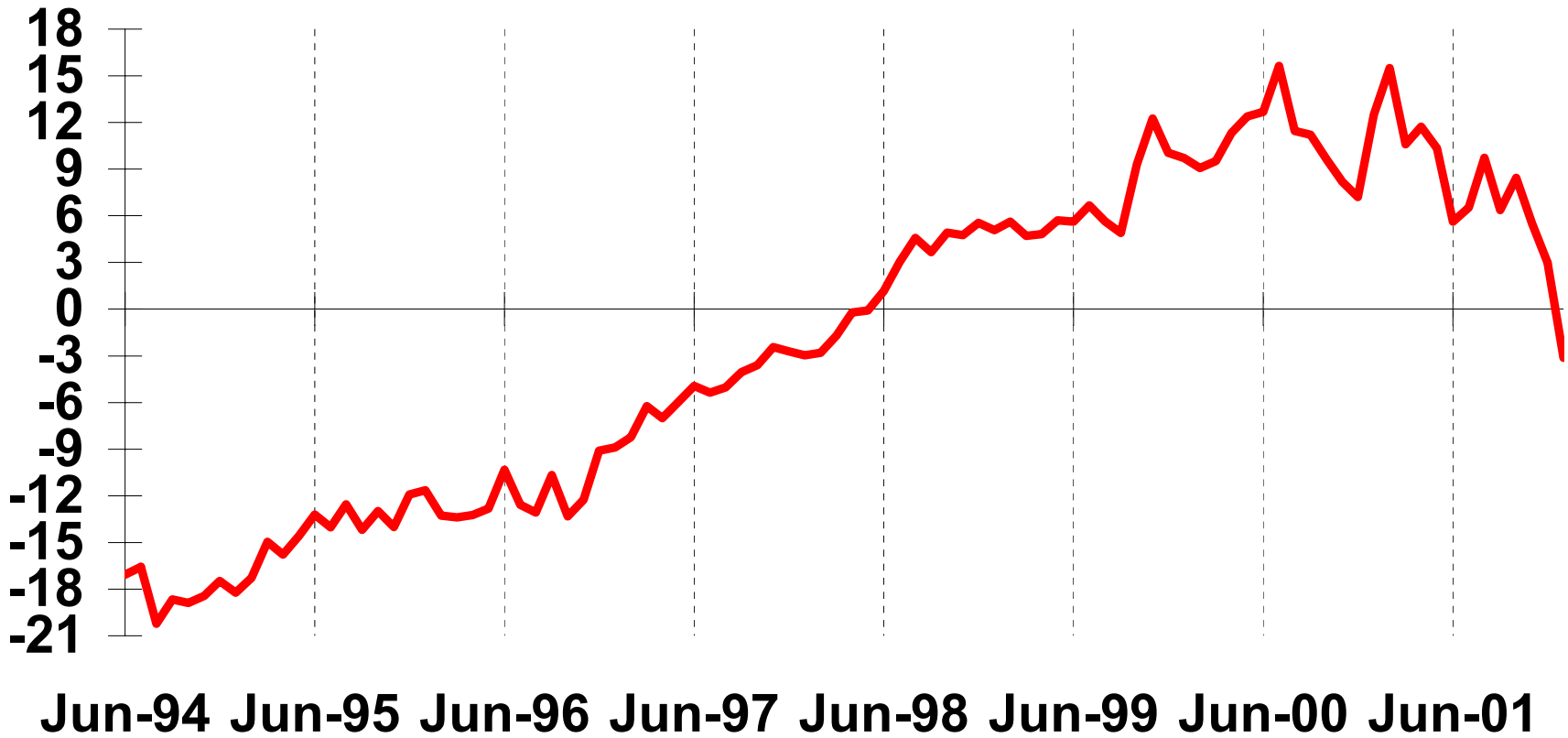


FEDS NEED TO TIGHTEN

Growth teetering on 'runaway speed' counsels a need to tighten Federal Budget policy. So too does the political cycle, as May's Budget is the first after the Federal election. But how much policy will tighten ahead of the PM's likely retirement in April 2003 is less clear. In the meantime, rapid economic growth should be starting to lift Budget revenues, but recent fiscal data show that avoiding an underlying cash Federal deficit is still an uphill battle.

FEDERAL SURPLUS SINKS

\$ billion Rolling 12 month underlying cash Budget balance



UNEMPLOYMENT OUTLOOK

Supercharged output growth means a full blooded job recovery has started. It will be mostly a blue collar, full-time recovery, though white collar sectors will participate by late 2003. With growth looking strong until mid-2003, it looks increasingly likely that the Federal Government will get its wish – despite rising participation, unemployment rates may be back at or below 6% by end 2003 or early 2004.

UNEMPLOYMENT OUTLOOK

