



**Actuaries  
Institute**

# Insights - Developments in the Banking Industry

Presented by  
Pat Brennan and Elliot Clarke

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# A matter of trust: why confidence is key for policy

Westpac Institutional Bank  
Presented by Elliot Clarke, CFA  
December 2017

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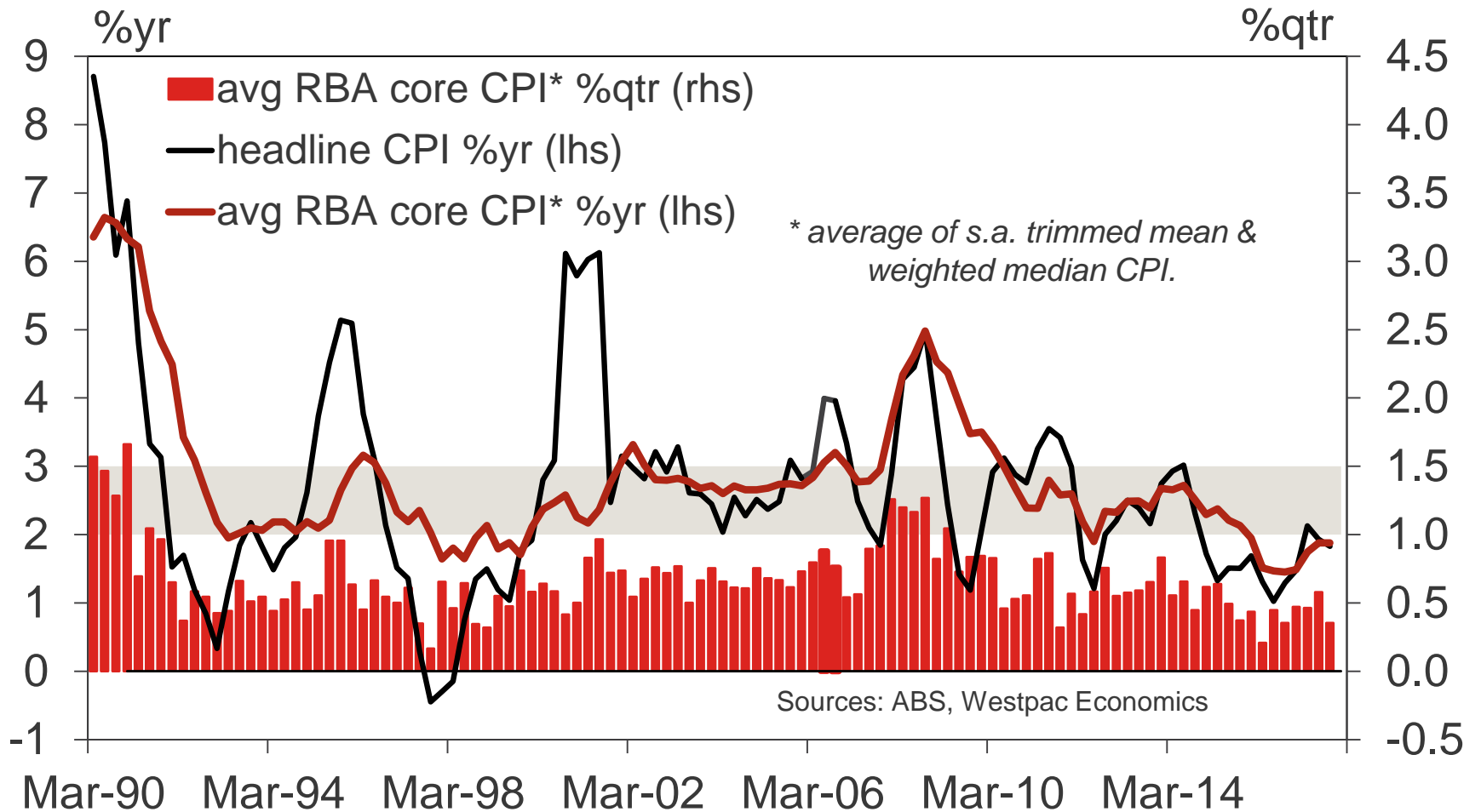


200 years proudly supporting Australia

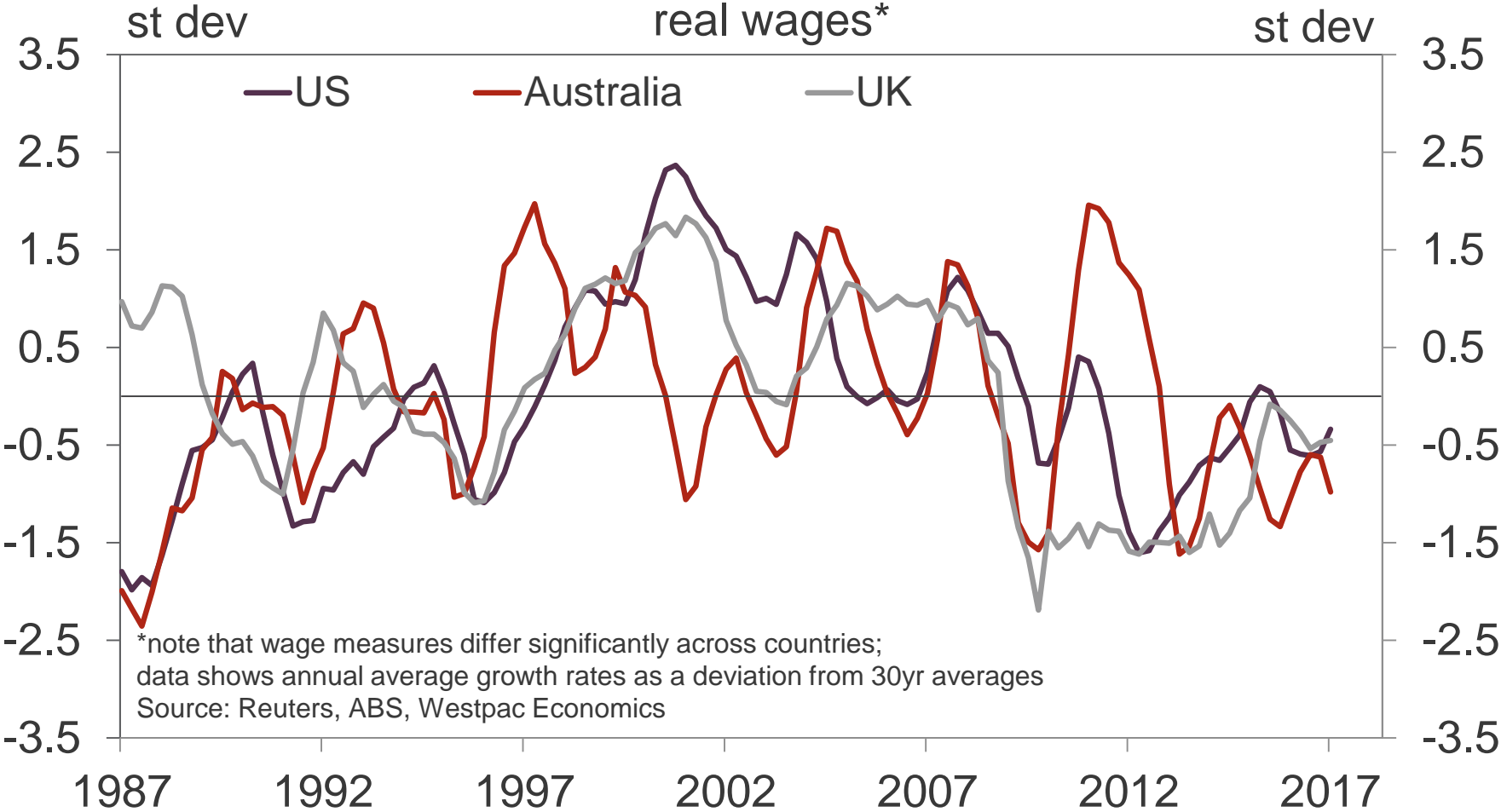
# Key themes

- Central banks and confidence: from inflation to growth.
- The cautious consumer and financial uncertainty.
- Macroprudential policy's significance.
- Investment in a low-growth environment.
- Global liquidity, fiscal policy and risk assets
- The Australian dollar: opportunities and risks.

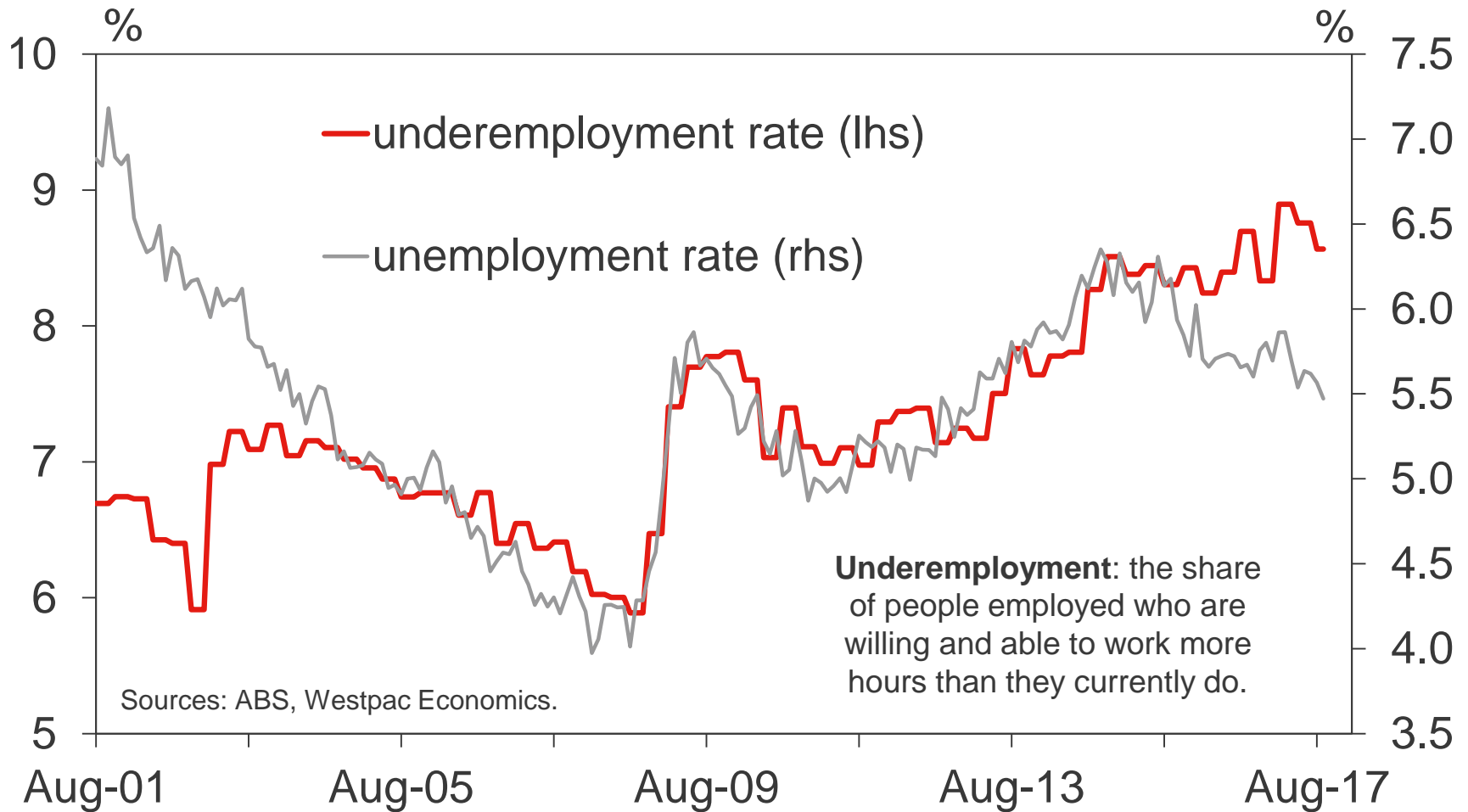
# Inflation: a new paradigm



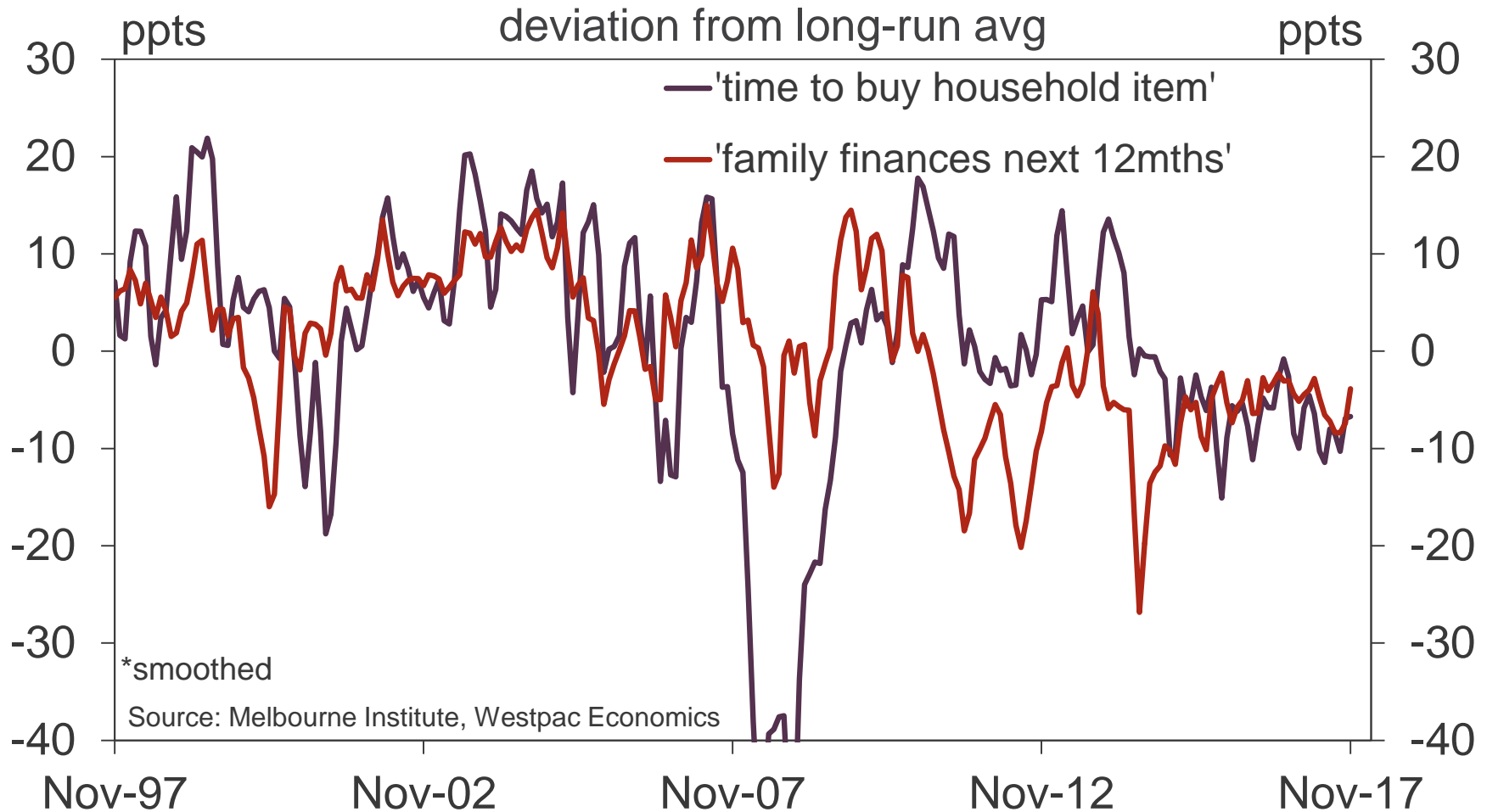
# Wages growth: weak across the world



# Aust unemployment misrepresents 'slack'

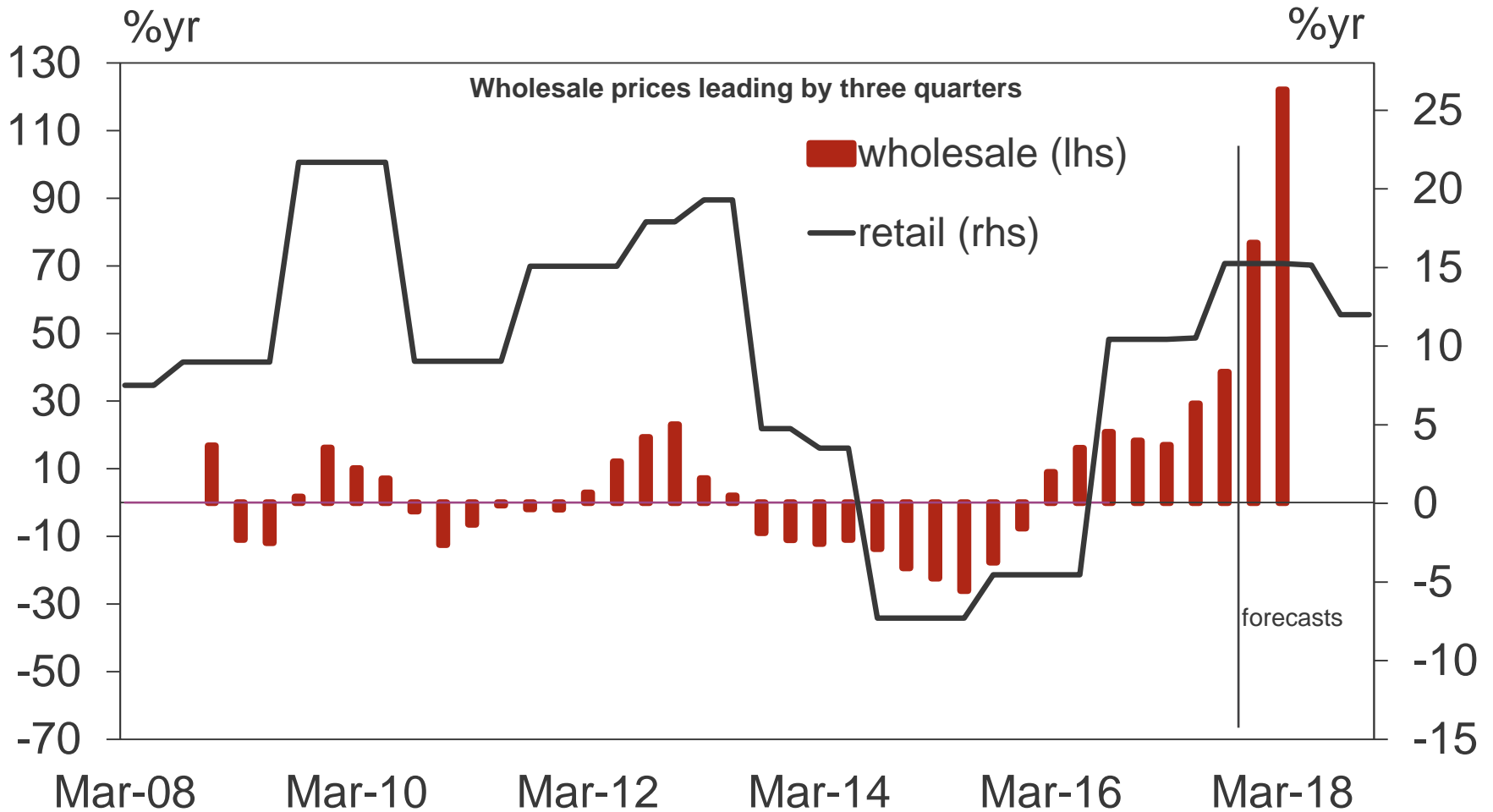


# Consumers' willingness to spend limited

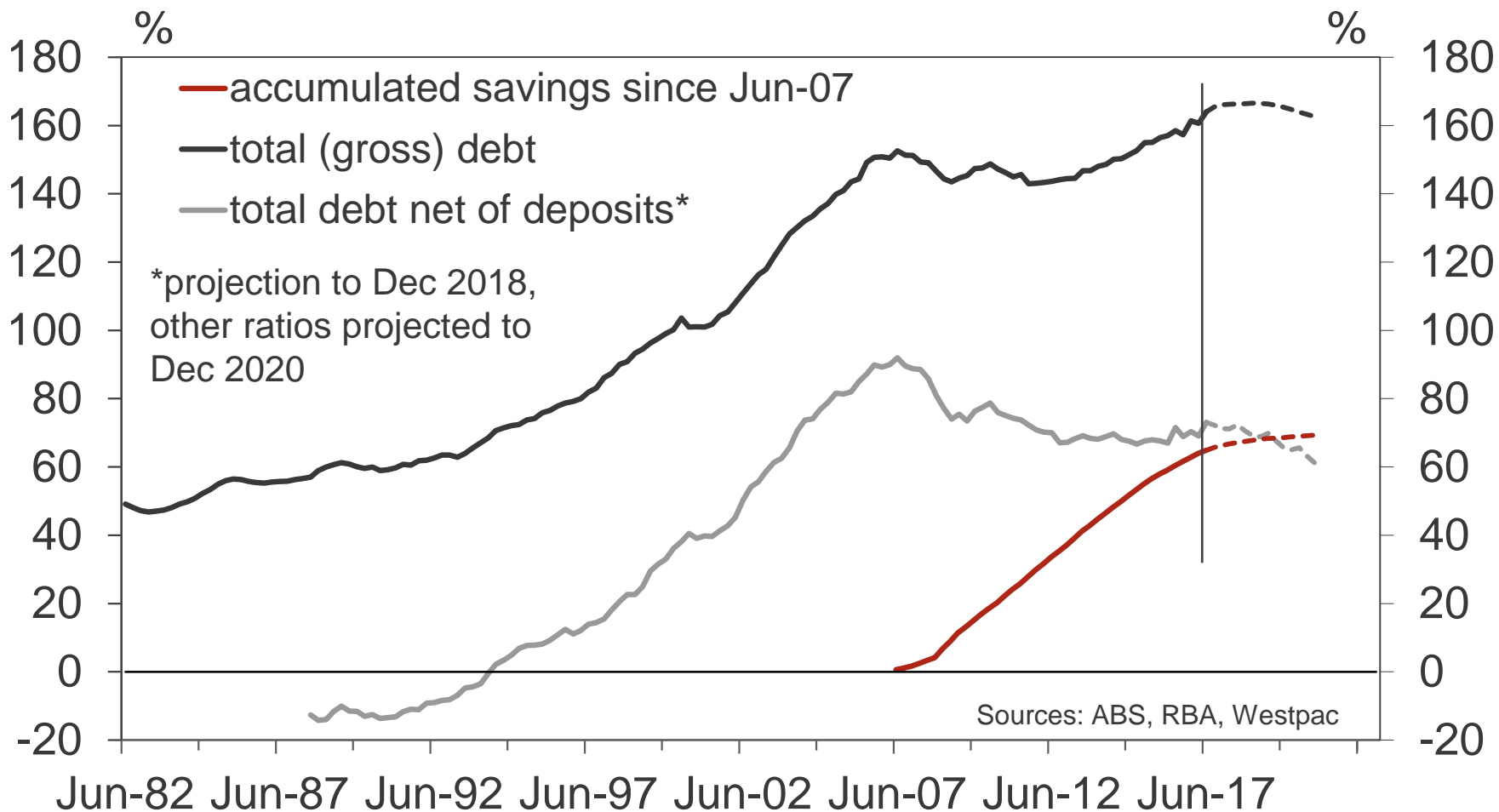




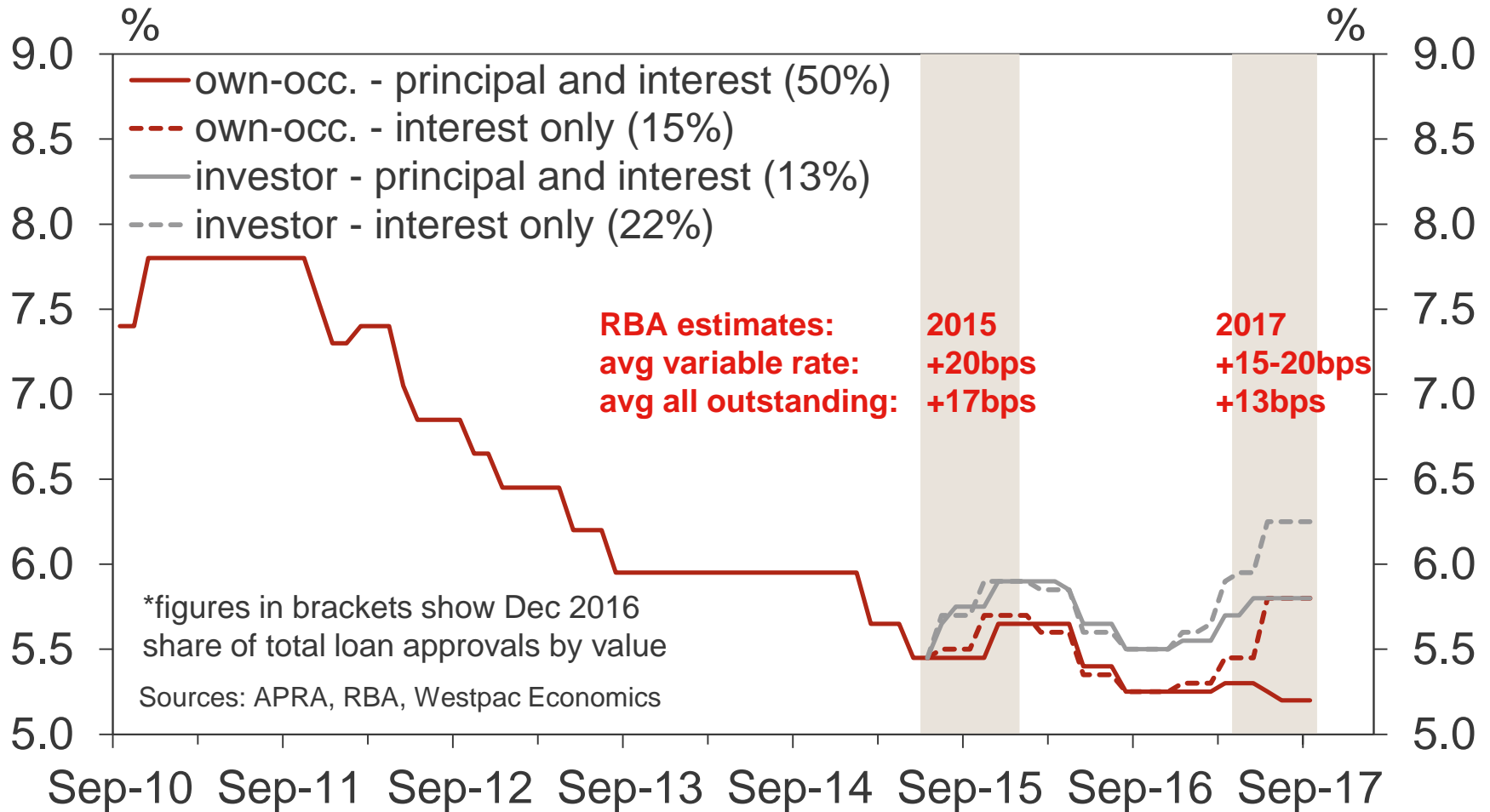
# Cost of essentials key: Sydney electricity



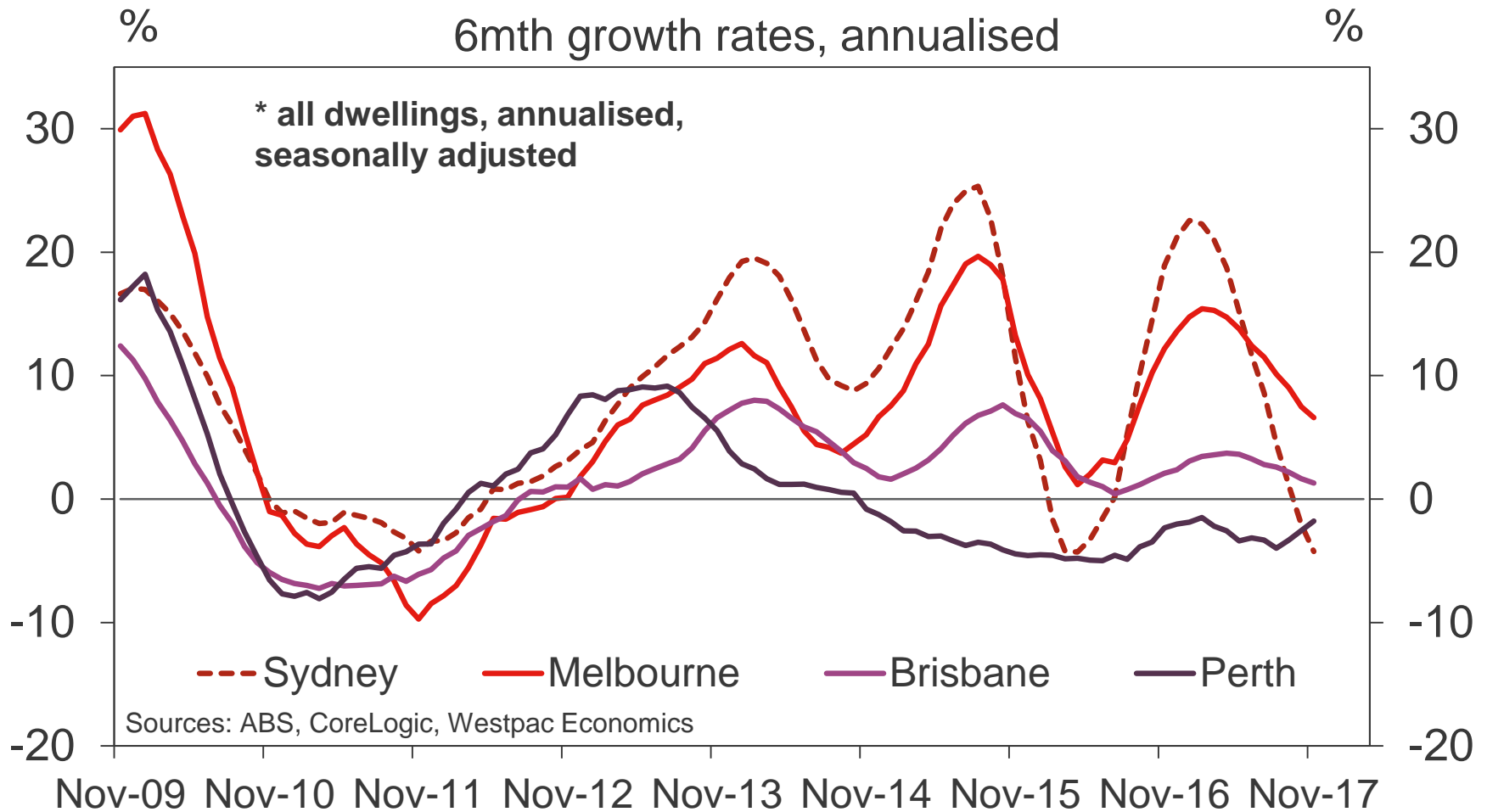
# Household debt: Australia a global leader



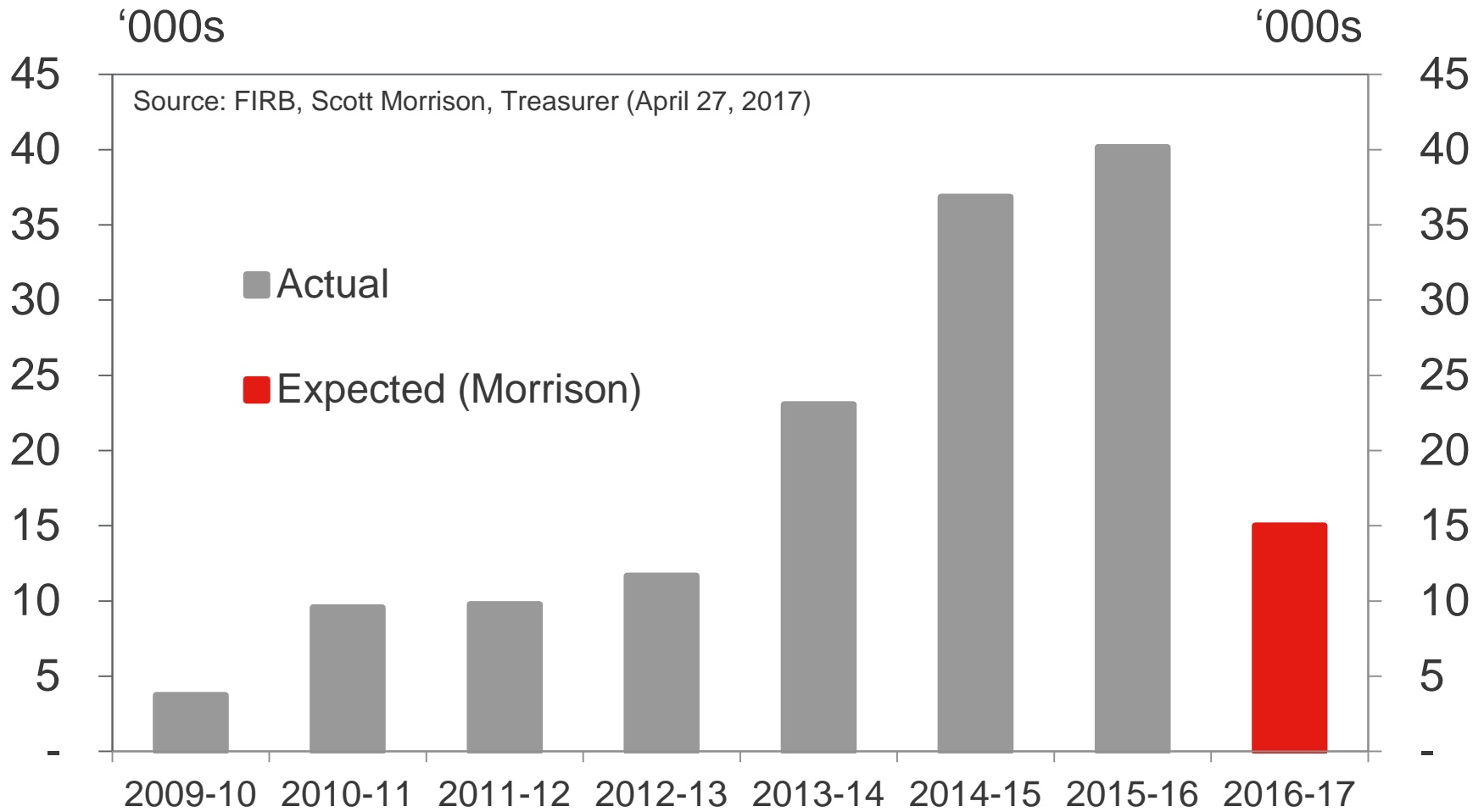
# The rise of macroprudential policy



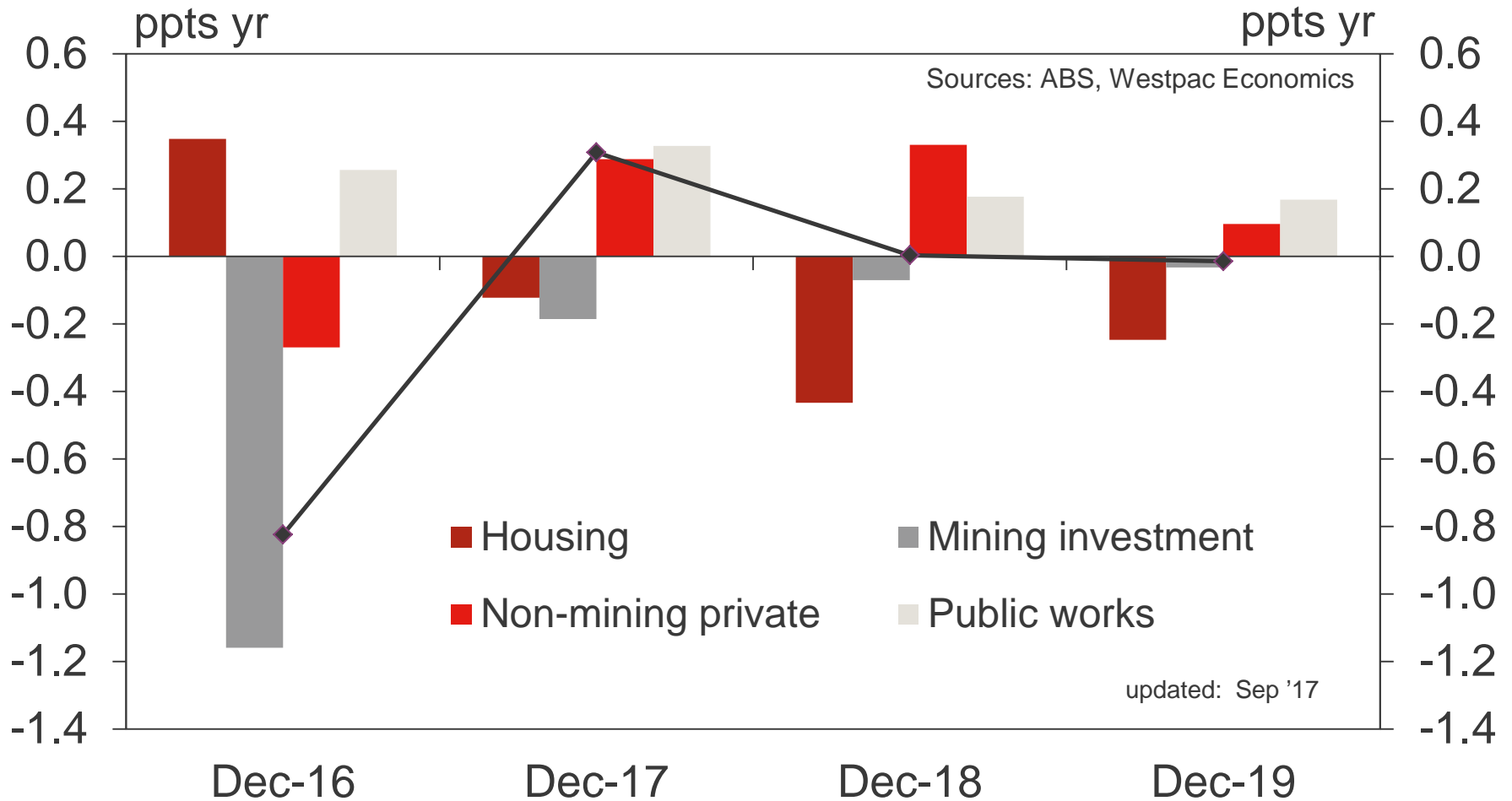
# Policy still effective for house prices



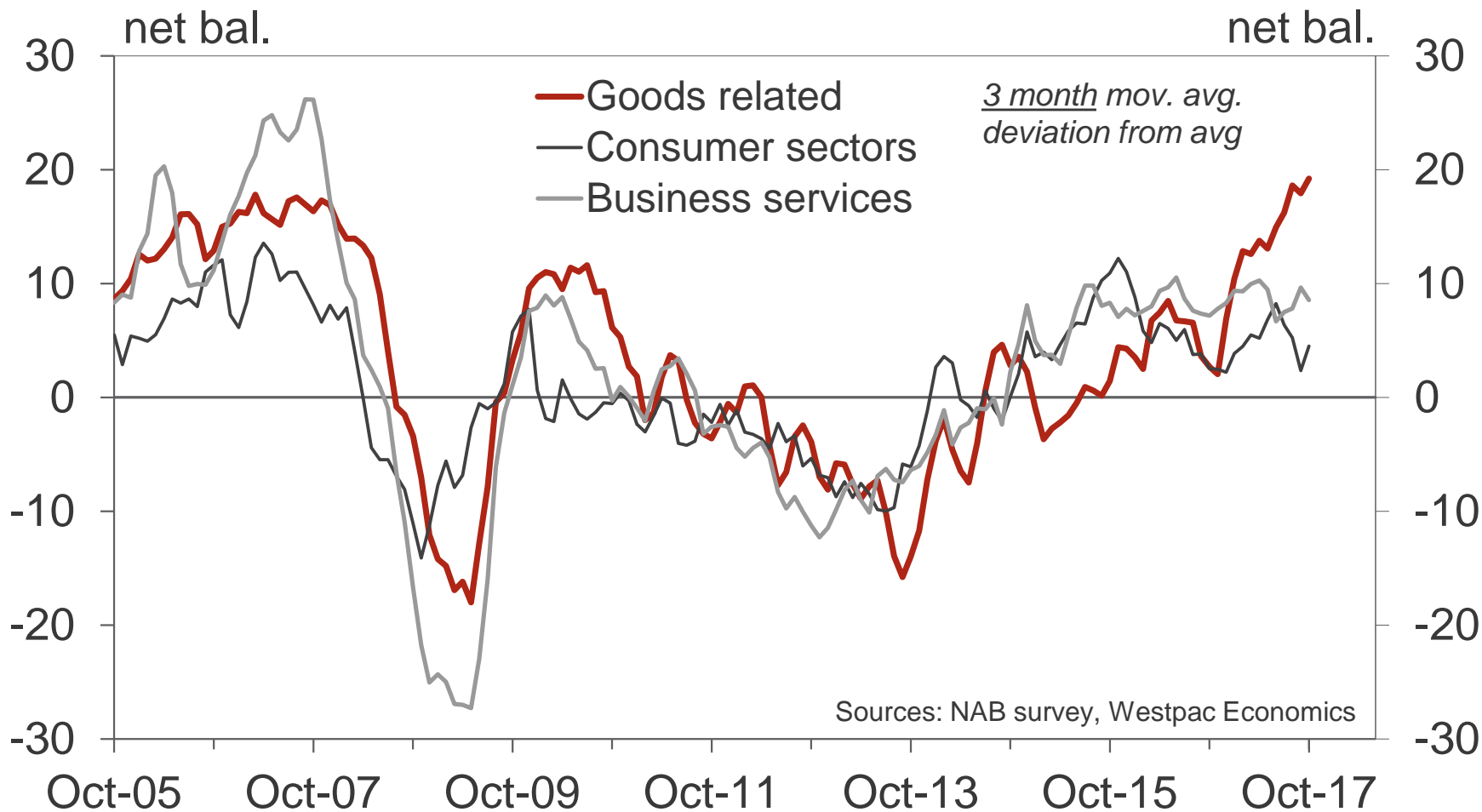
# Foreign buyers are disappearing



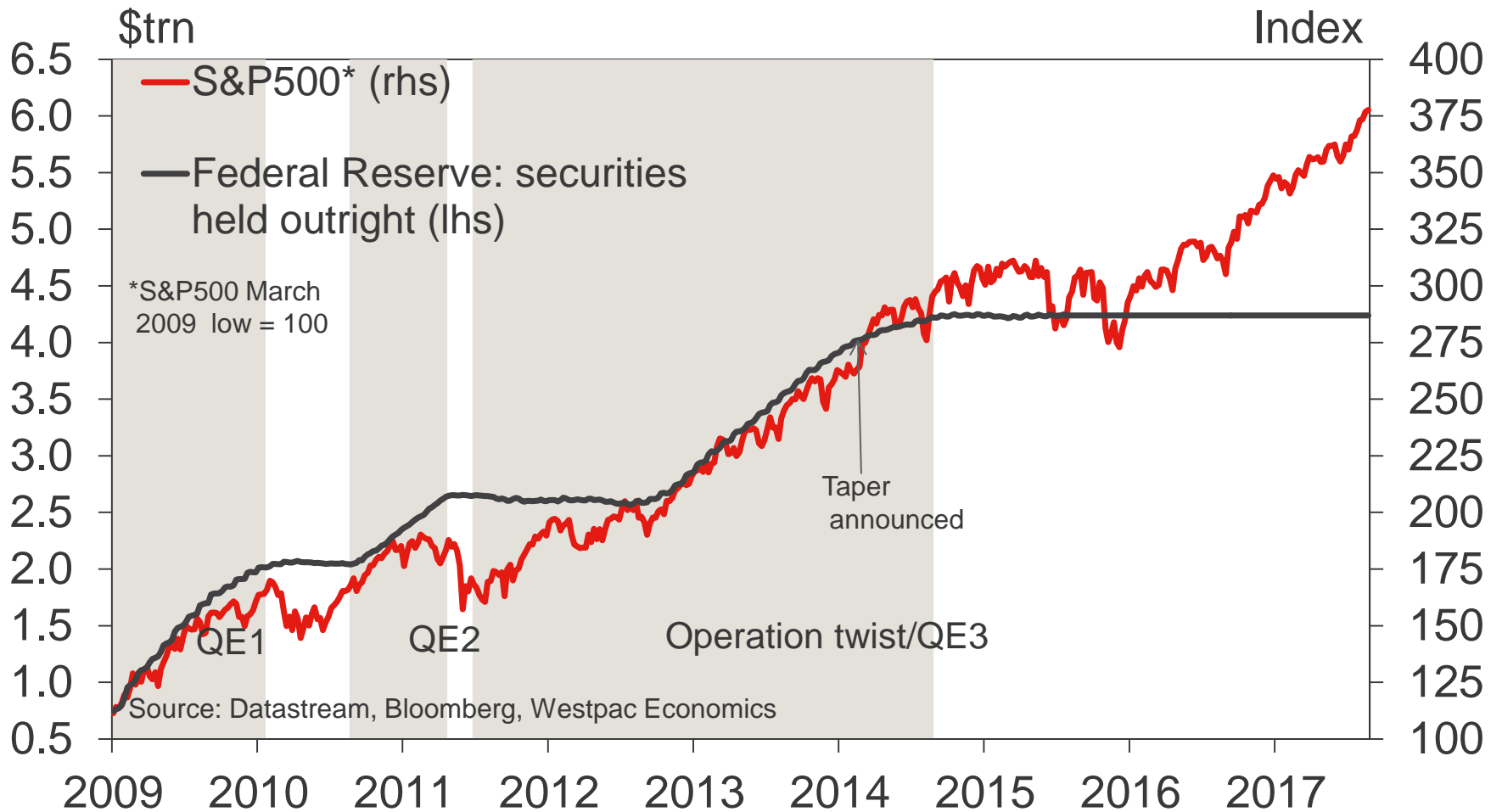
# Australian construction GDP contribution



# Business conditions: by broad sectors

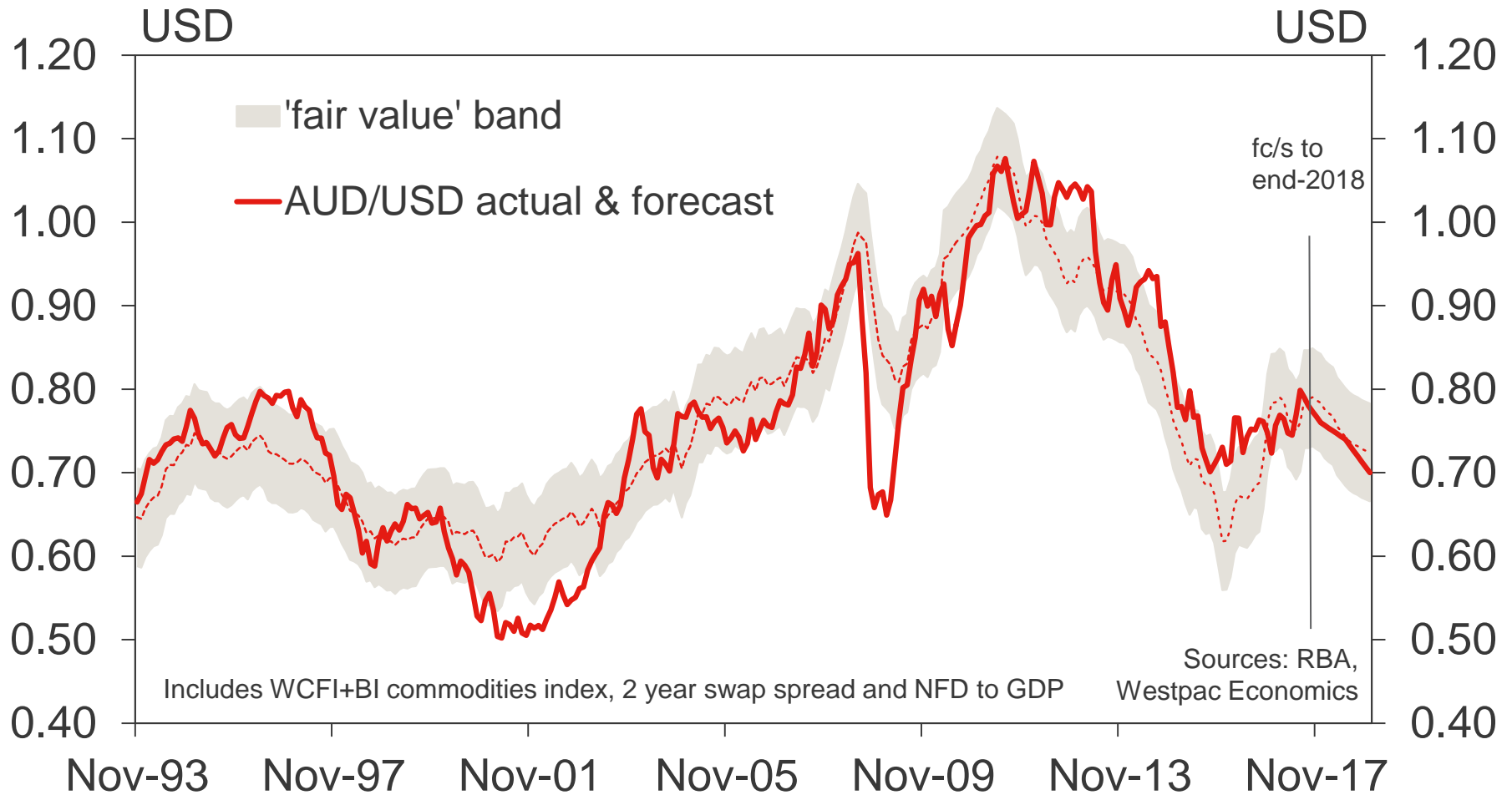


# US equities shift focus to fiscal policy

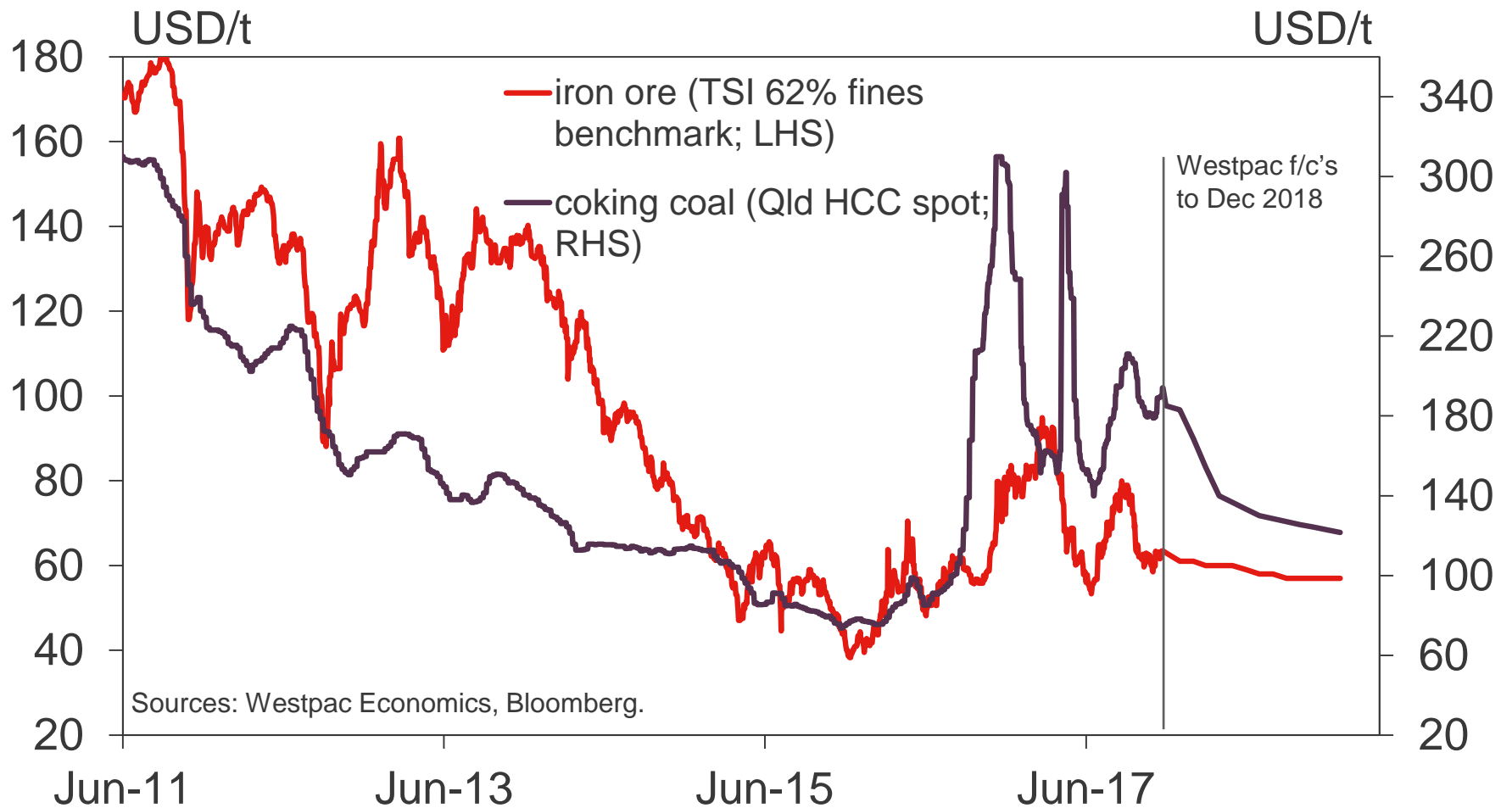




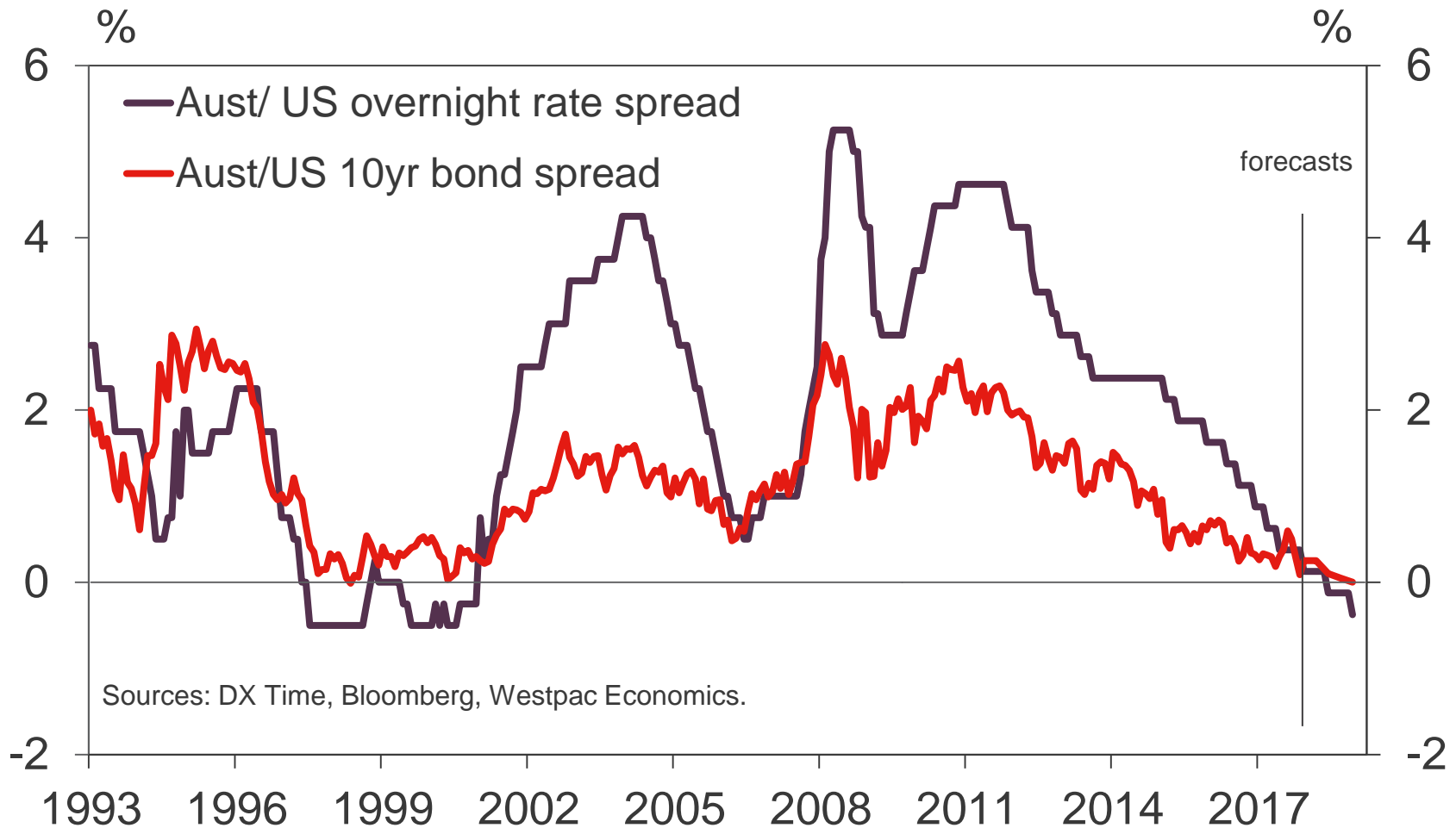
# Australian dollar: actual versus fitted



# Outlook for spot iron ore & coking coal



# Australia & US: cash and 10yr spreads



# Conclusion

- Monetary policy's focus has shifted from holding back inflation to promoting growth. Firming of global growth dependent on extraordinary policy.
- Growth at or above trend very difficult to achieve when the consumer is under stress. In Australia, wages; cost of life's essentials and debt are major, long-lasting concerns.
- While the business investment outlook has improved, its contribution to growth is likely to only offset the loss of support from housing in 2018 and 2019. Will keep domestic demand and GDP growth below trend.
- Globally, 2018 will be a testing time as alternative easing wound back; fiscal policy unlikely to be a major offset.
- The Australian dollar is expected to fall in 2018, providing stimulus to our economy. Commodity prices are the key risk to this view.

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