



Private Healthcare Australia
Better Cover. Better Access. Better Care.

Private Healthcare Australia Conference

How is healthcare performing?
- an industry economists perspective

Dean Pearson
Head of Industry Analysis, NAB
November 29, 2013
Hobart, Australia



more give, less take



“Confidence is contagious, but so is a lack of confidence”

Vince Lombardi, legendary NFL player & coach

The Numbers



Cartoon by Nicholson from "The Australian" newspaper:
www.nicholsoncartoons.com.au



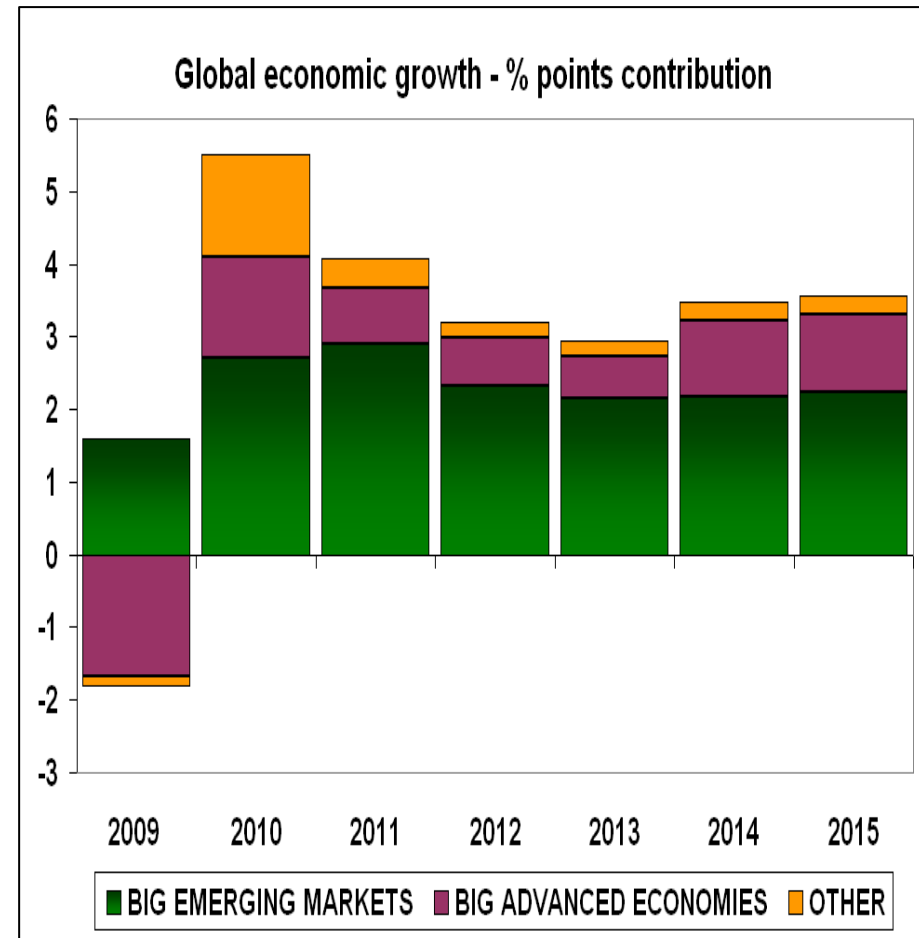
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Global economic forecasts

Half of current global growth still coming from China, India & Brazil but a bigger contribution in 2014 from advanced economies.



	2012	2013	2014	2015
World GDP growth	3.2	2.9	3.5	3.6
United States	2.8	1.7	2.6	2.9
Euro zone	-0.6	-0.3	1.1	1.4
Japan	2.0	1.9	2.1	1.5
China	7.8	7.5	7.2	7.0
Emerging Asia ^(a)	3.8	3.5	3.8	4.2
India	5.1	4.4	4.9	5.3
Trading partners	4.2	4.0	4.2	4.1



(a) South Korea, Taiwan, ASEAN

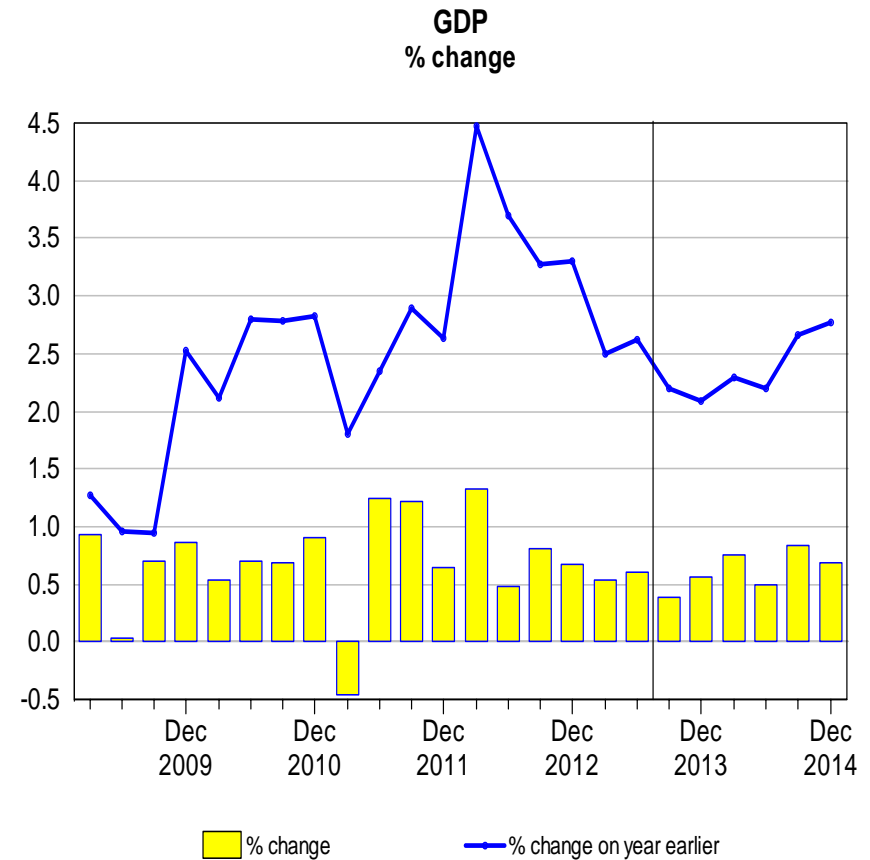
Australian economic forecasts

Weaker AUD & lower interest rates won't be enough. Mining transition & fiscal austerity will see the labour market slow.



	2013	2014	2015
GDP	2.3	2.4	2.9
Employment	1.1	0.3	0.9
Unemployment rate*	5.9	6.6	6.3
CPI underlying**	2.3	2.4	2.1
RBA cash rate*	2.50	2.25	3.00
\$US/\$A*	0.95	0.86	n.a.

* at end of period; ** through-year growth



Source: ABS and NAB forecasts

The Business Environment



Cartoon by Nicholson from "The Australian" newspaper:
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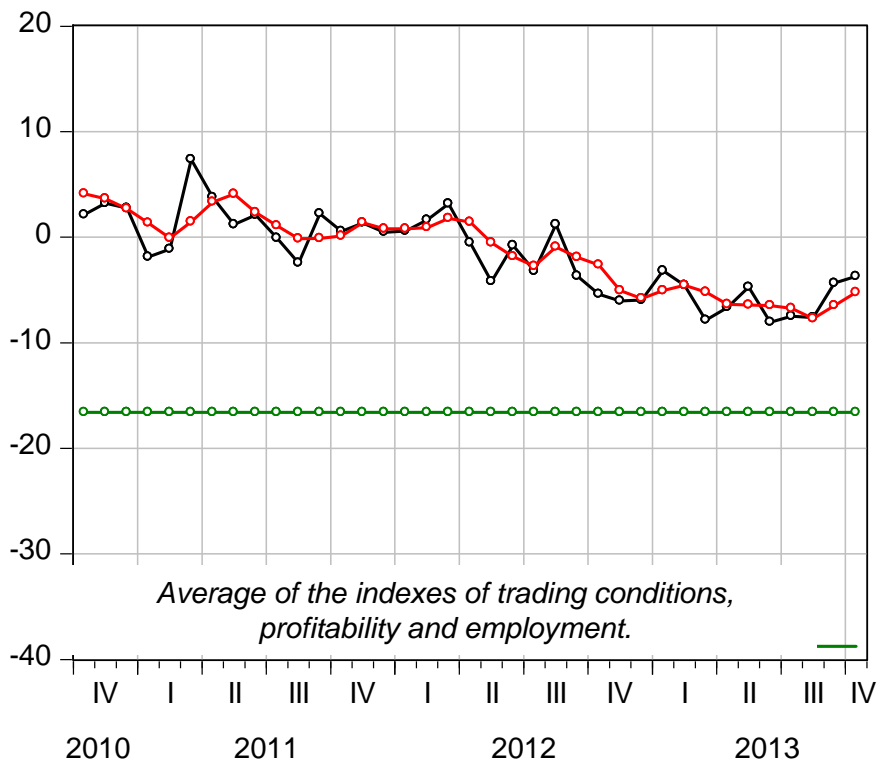
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Australian business conditions & confidence

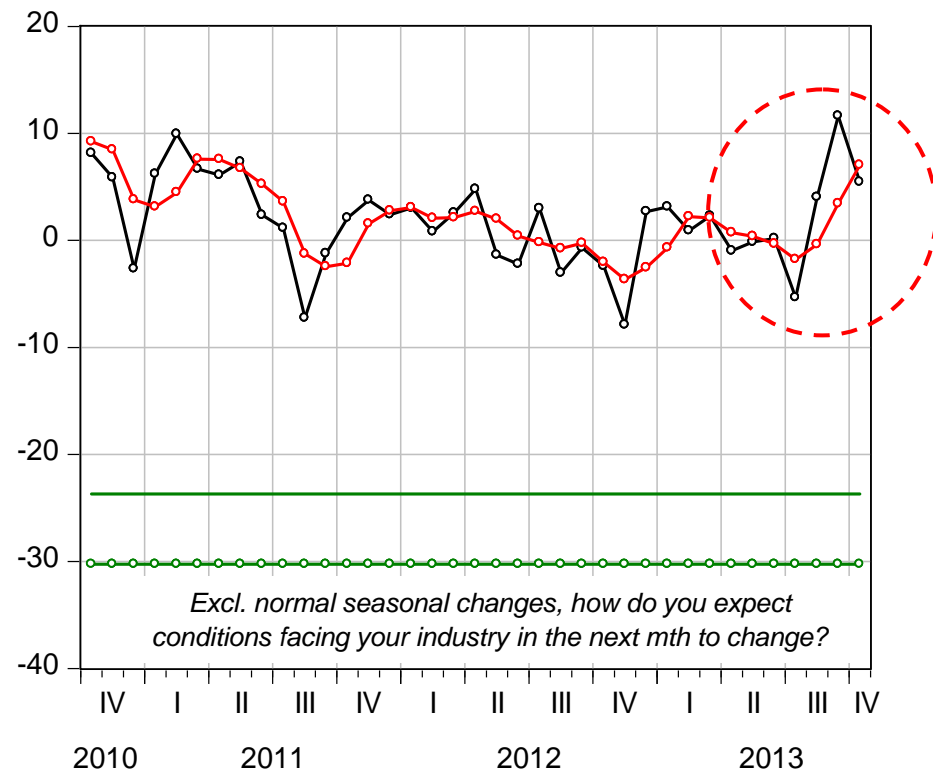


After surging to a 3½ year high in September, the business confidence fell back significantly in October suggesting businesses have reassessed their expectations given the continued weakness in actual conditions.

Business conditions (net balance)



Business confidence (net balance)



Seasonally adjusted
 Trend
 Conds 1990s recn
 Conds GFC

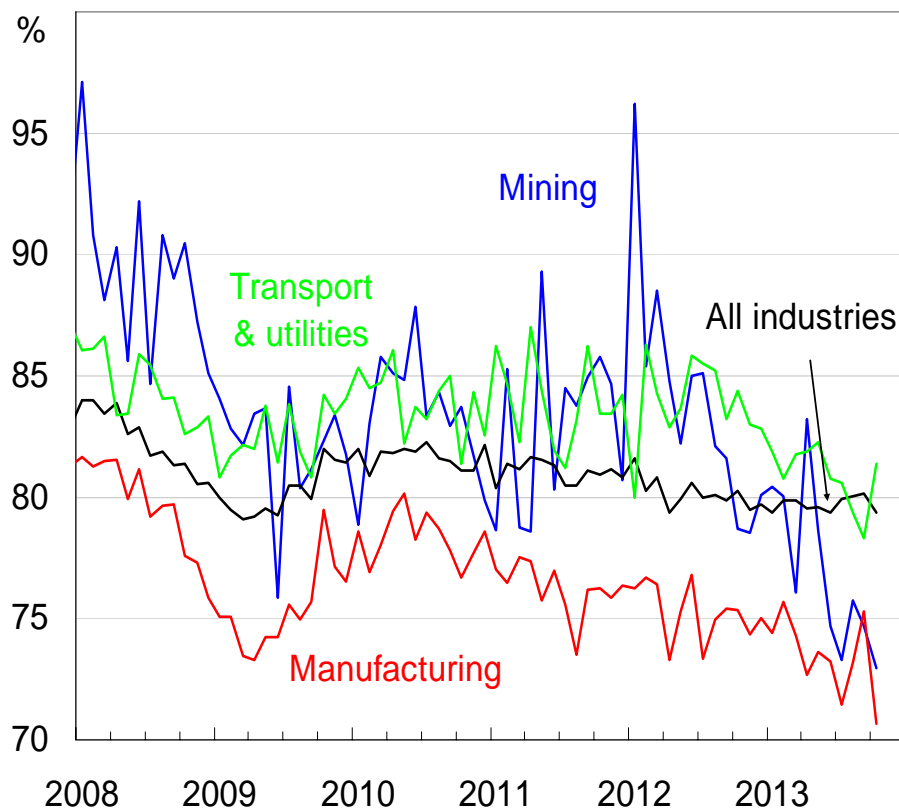
Seasonally adjusted
 Trend
 Conf 1990s recn
 Conf GFC

Capacity utilisation & capital expenditure

Capacity utilisation by industry shows little incentive for new investment. There is still little evidence that business investment outside the mining sector is likely to pick up strongly any time soon.

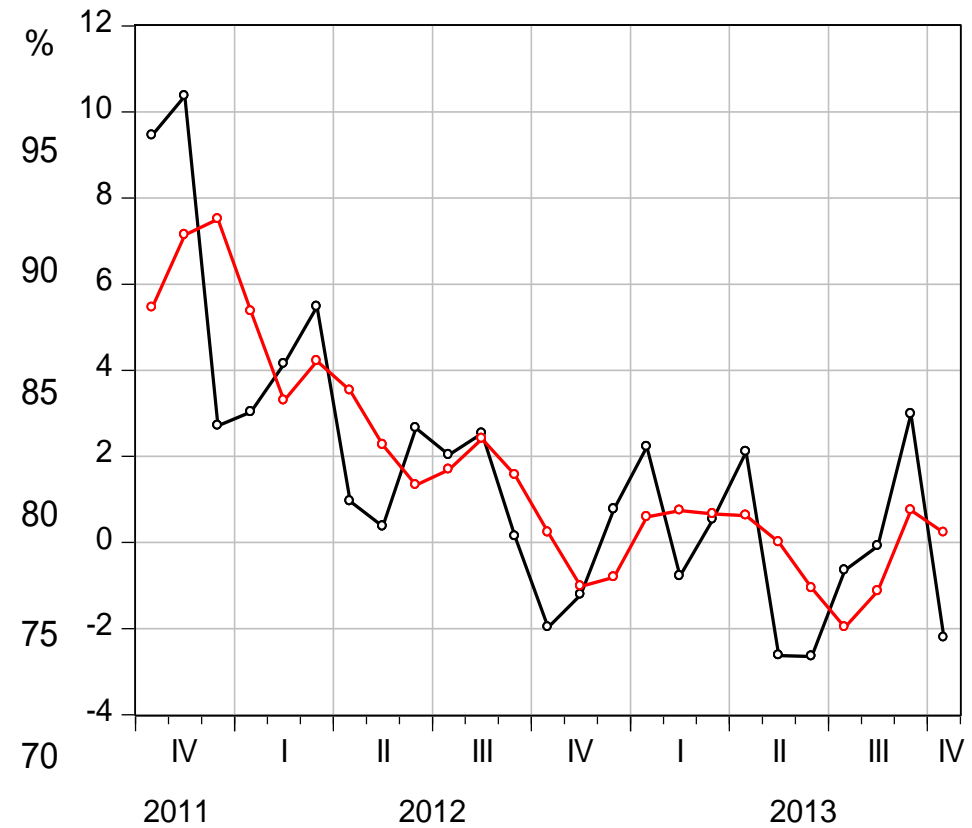


Capacity Utilisation



Source: NAB

Capital expenditure (net balance)



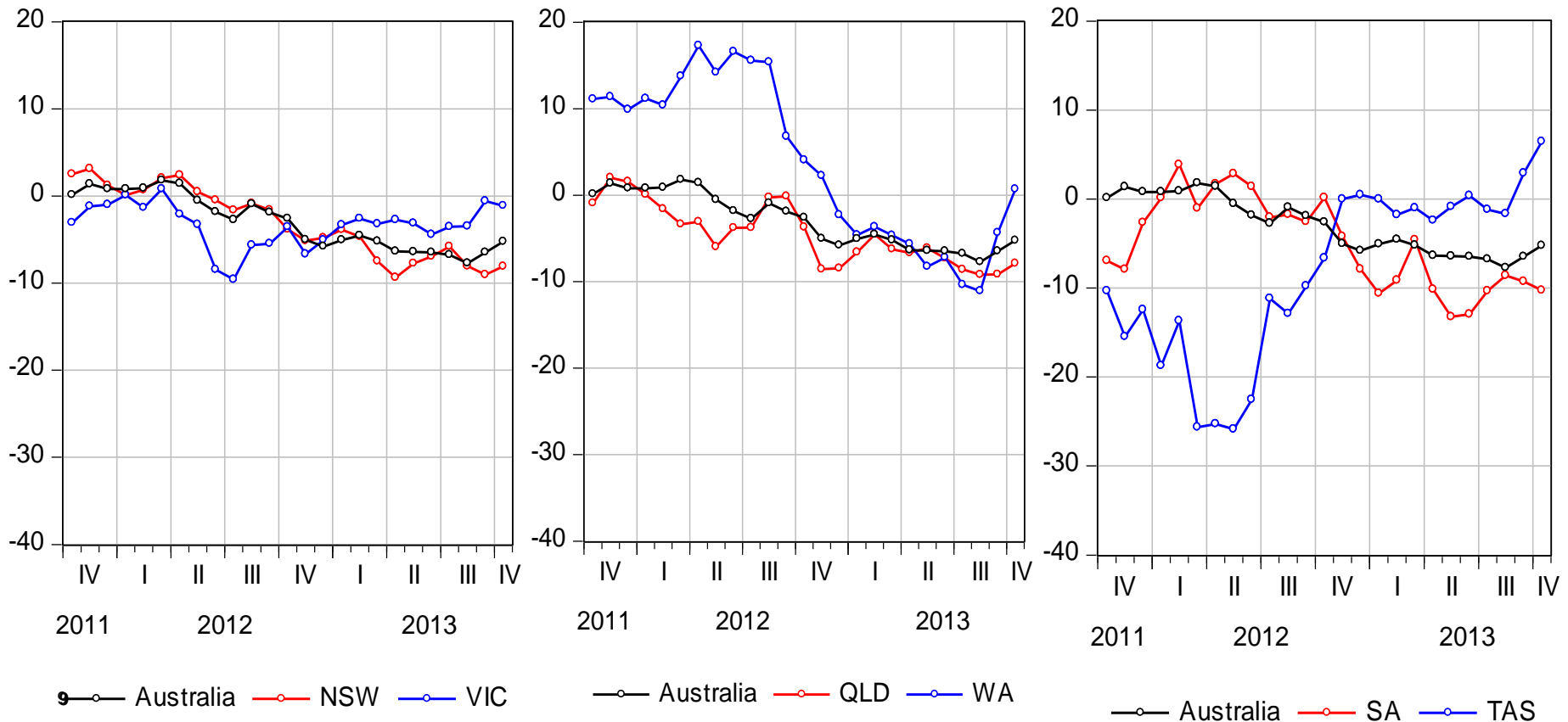
—○— Seasonally adjusted —○— Trend

Business conditions by state

State conditions have converged as weakness infiltrates previously strong performers. More recently, conditions have lifted significantly in WA.

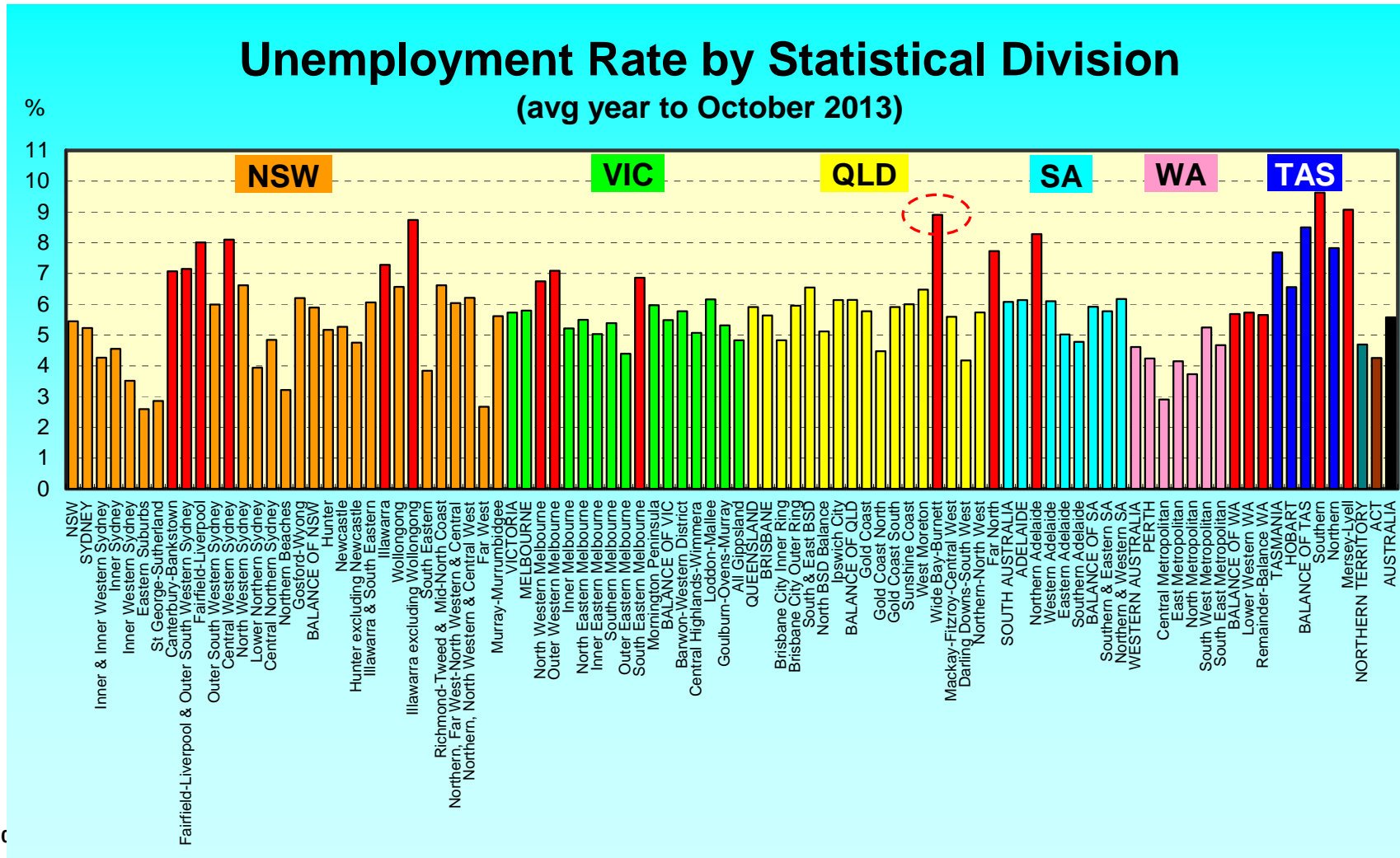


Business conditions by state (net balance), 3-month moving average



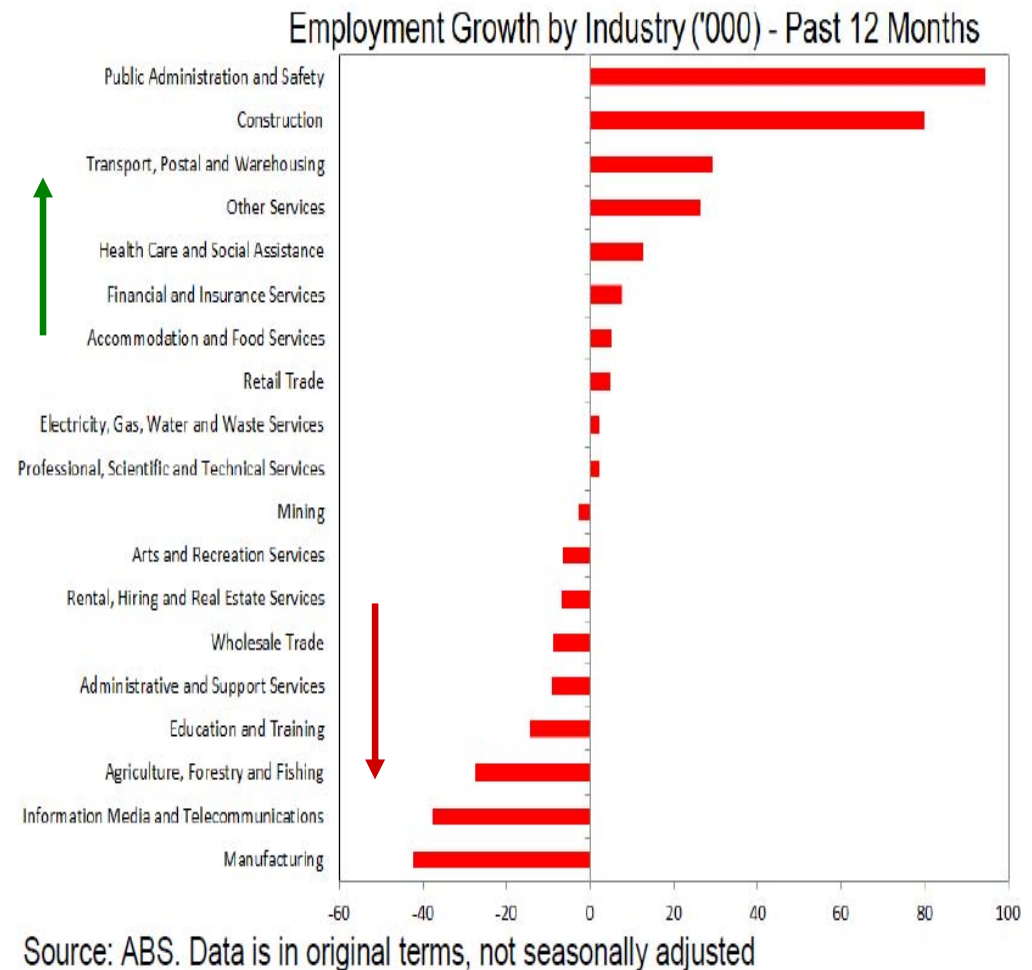
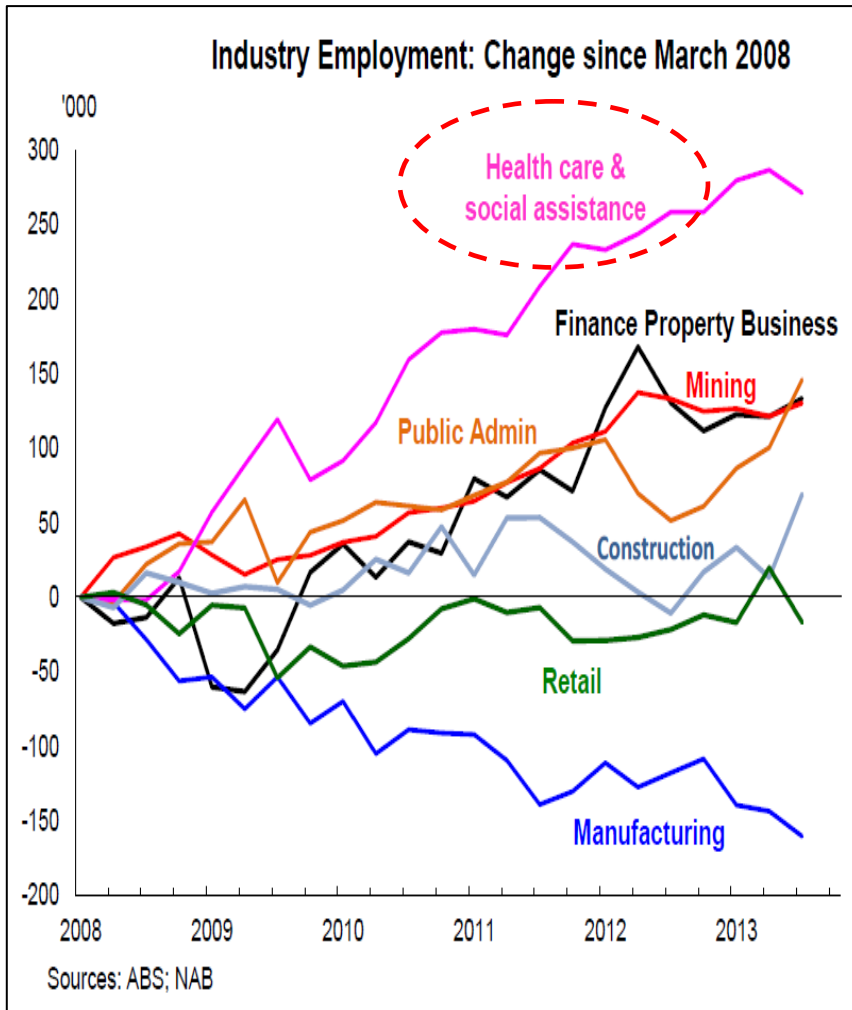
Regional Unemployment

Big disparities in unemployment within and across Australian regions. Some suburbs & towns clearly missed out on the “boom”.



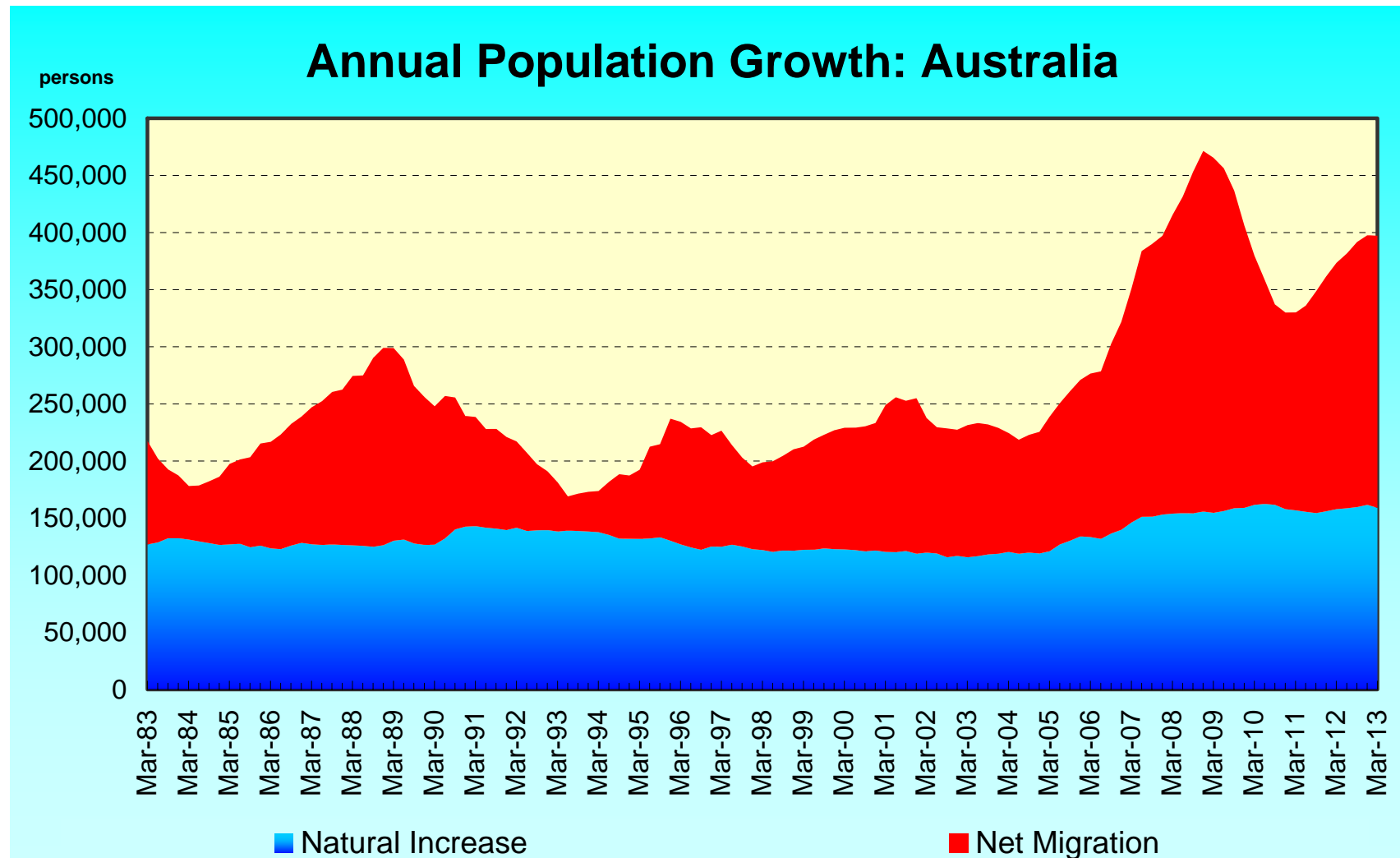
Labour market challenge

Adjustment process to go into reverse! Mining could release 100k construction jobs in 3 years. But jobs are being made as well as lost. Health has been a key driver of jobs growth!



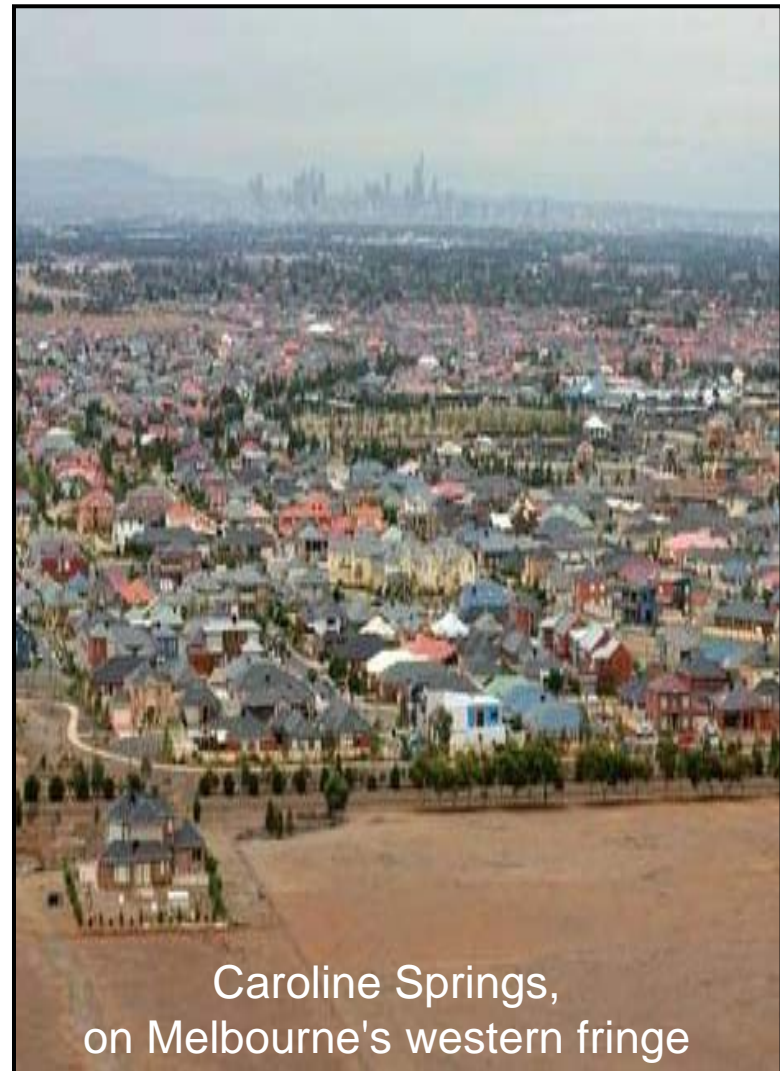
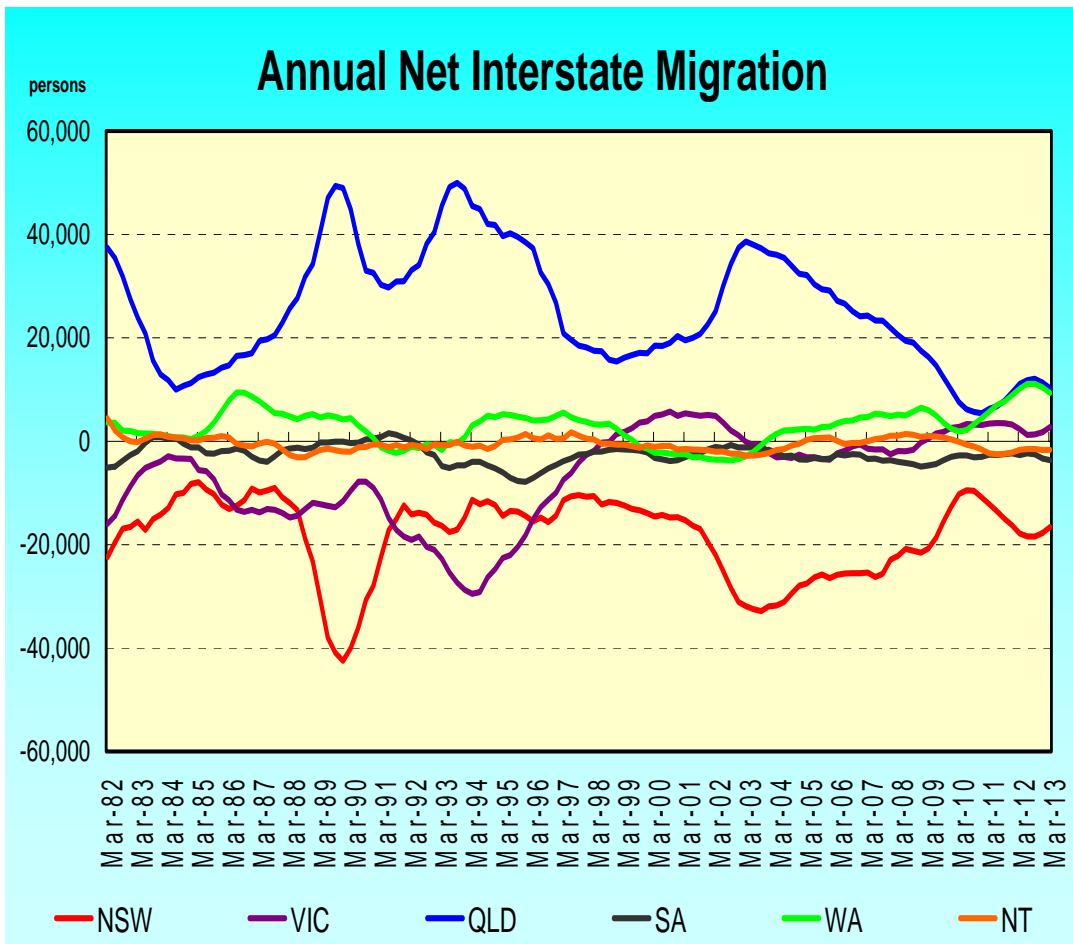
Population growth

Australia's population grew by 1.8% in 2012, well above its long-term average. WA population growing at more than double the national average.



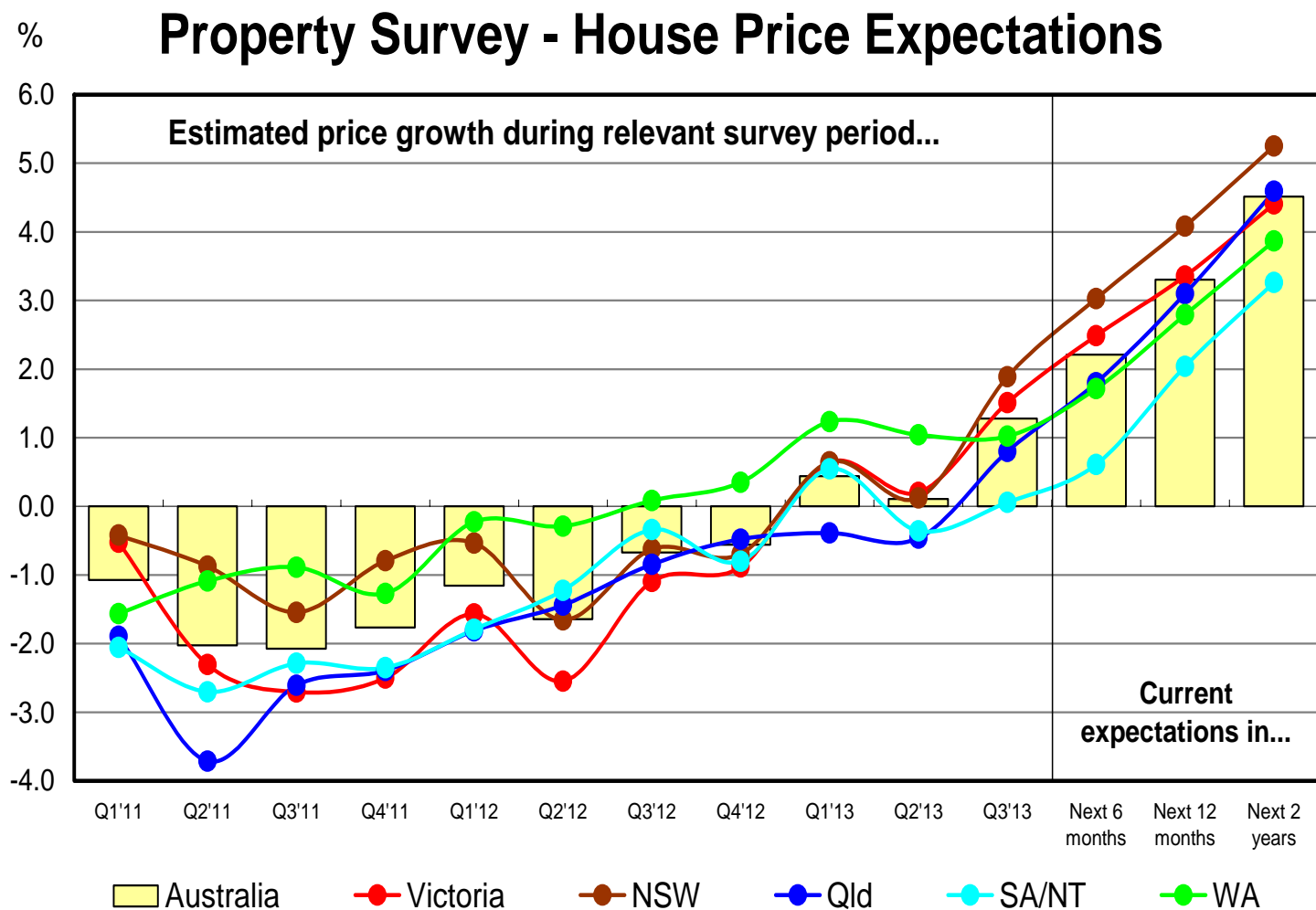
Net Interstate Migration

At the State level, net interstate migration is also important (ie. movements within states). And here there are some big differences.



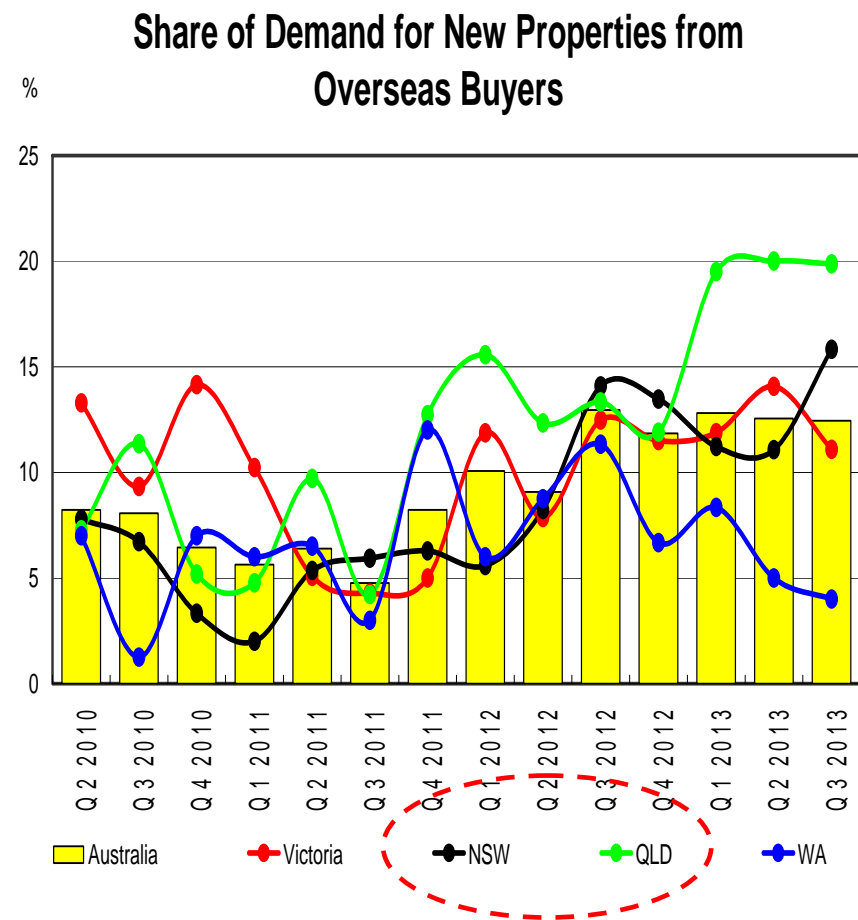
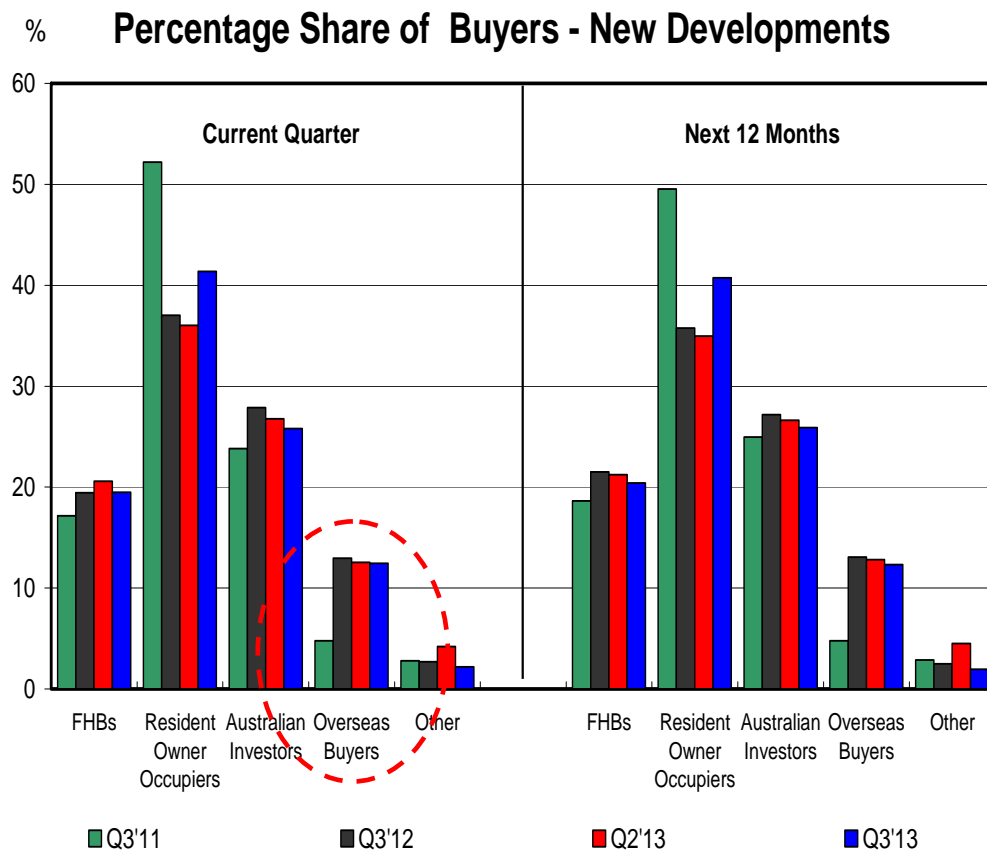
Lower rates have seen expectations (& actual) house prices increase, esp. in NSW

But we still expect relatively moderate gains (by historical norms) in the next 12 months (around 5%) but with differences across cities.



More interest in investor market - esp. foreign

Owner occupier the largest share and appears to be increasing again. But overseas investors are around 12.5%. Main focus is Qld & recently NSW.



Industry share of state production



When comparing conditions across states, important to review the contribution of industry sectors to each economy. The most notable disparity is the mining sector.

	2011/12 Share of State Production (%)						
	NSW	VIC	QLD	SA	WA	TAS	Australia
Agriculture	2	3	3	6	2	8	3
Mining	3	2	11	5	36	2	10
Manufacturing	8	9	8	10	5	9	8
Construction	6	6	9	7	12	7	8
Wholesale Trade	5	5	6	5	3	3	5
Retail Trade	4	6	5	5	3	6	5
Finance & Insurance	15	13	7	9	4	8	10
Property & Business	13	14	11	9	8	7	12
Other	43	42	41	43	26	50	40

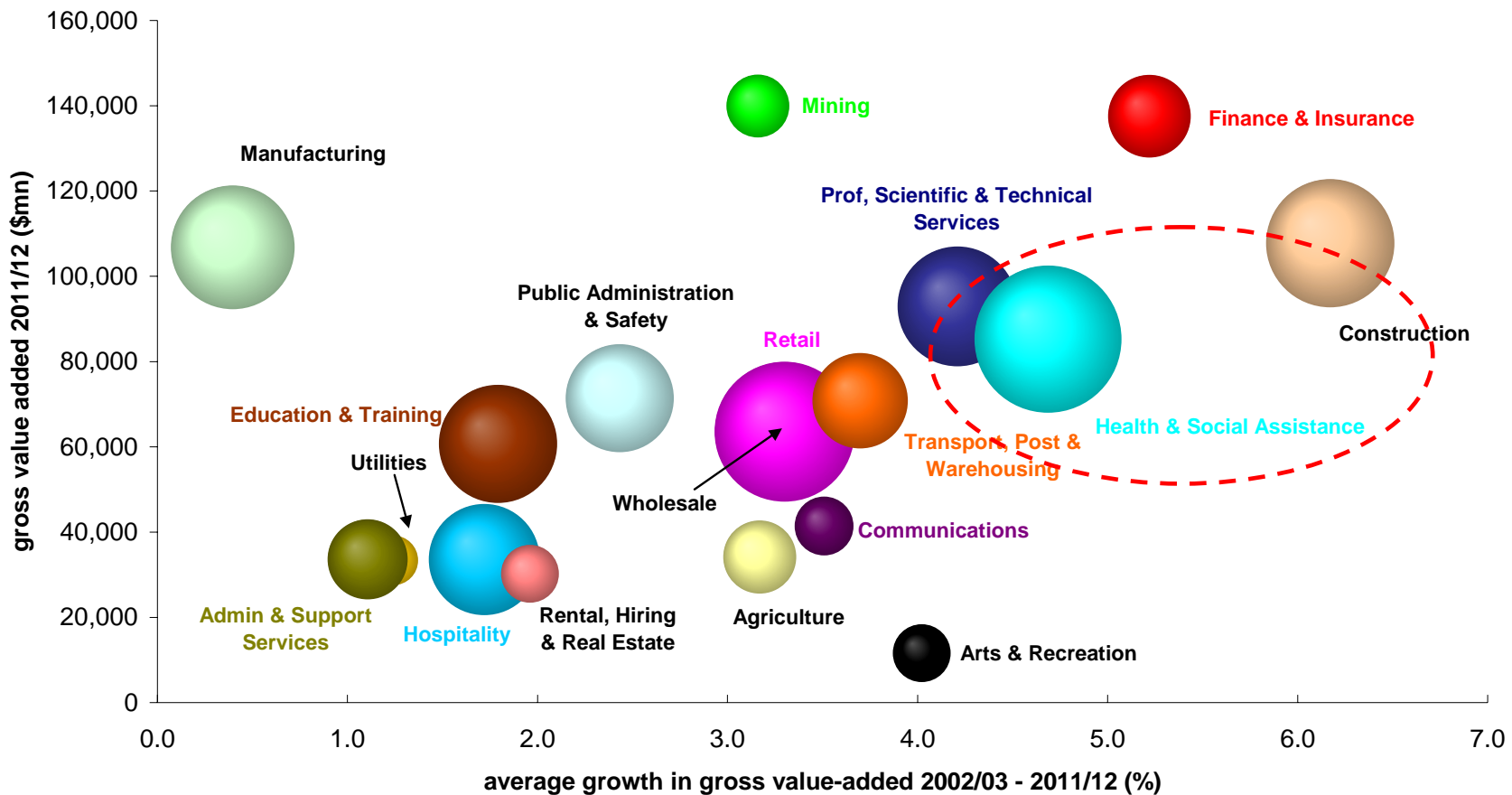
Source: ABS

Aust industry structure & growth

Construction, Finance and Health Services have recorded the fastest growth rate of all sectors over the past decade. And Health a key employer!



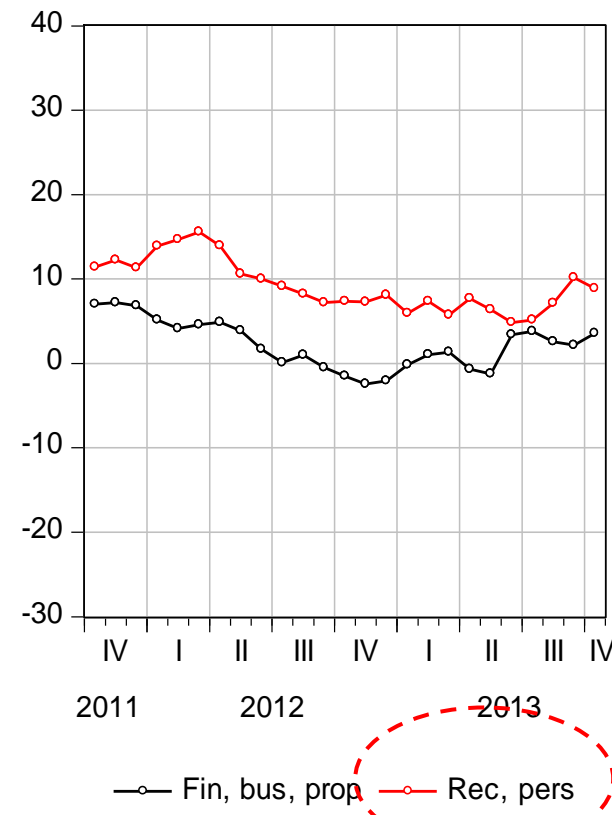
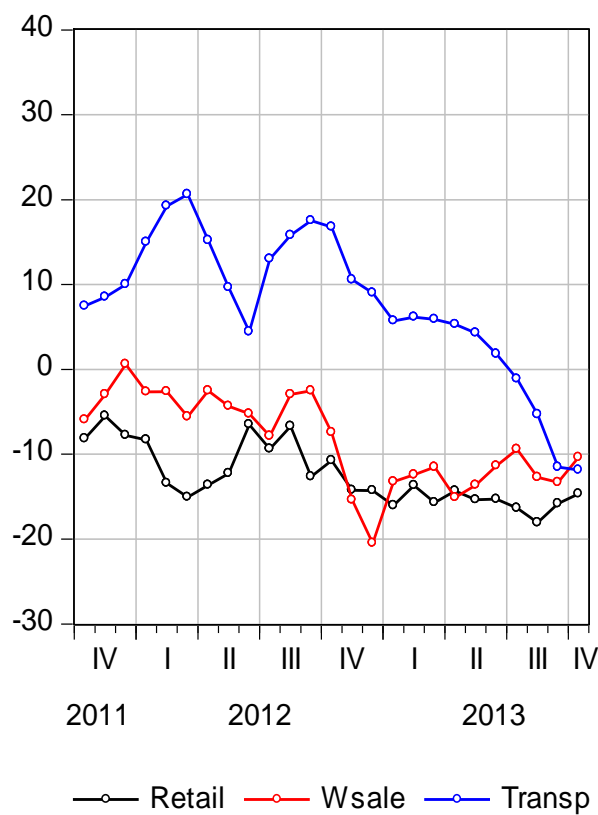
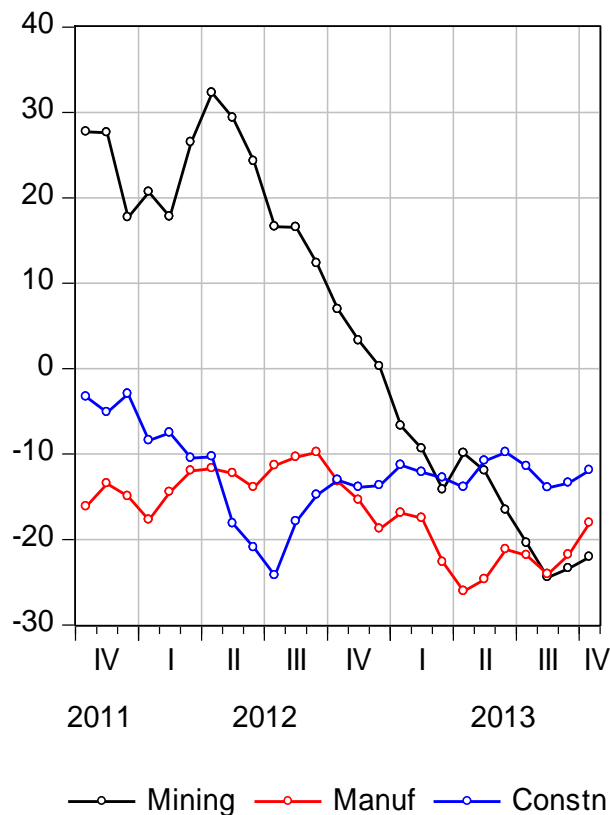
Australia Industry Structure
(bubble size = employment)



Business conditions by industry sector



Multi-speed economy narrowing: but fast lane slowing. Big fall in mining since peak. Consumer dependent sectors remain poor. Where is the strength? = “Recreational & Personal Services” (incl. Health, Education, Travel).

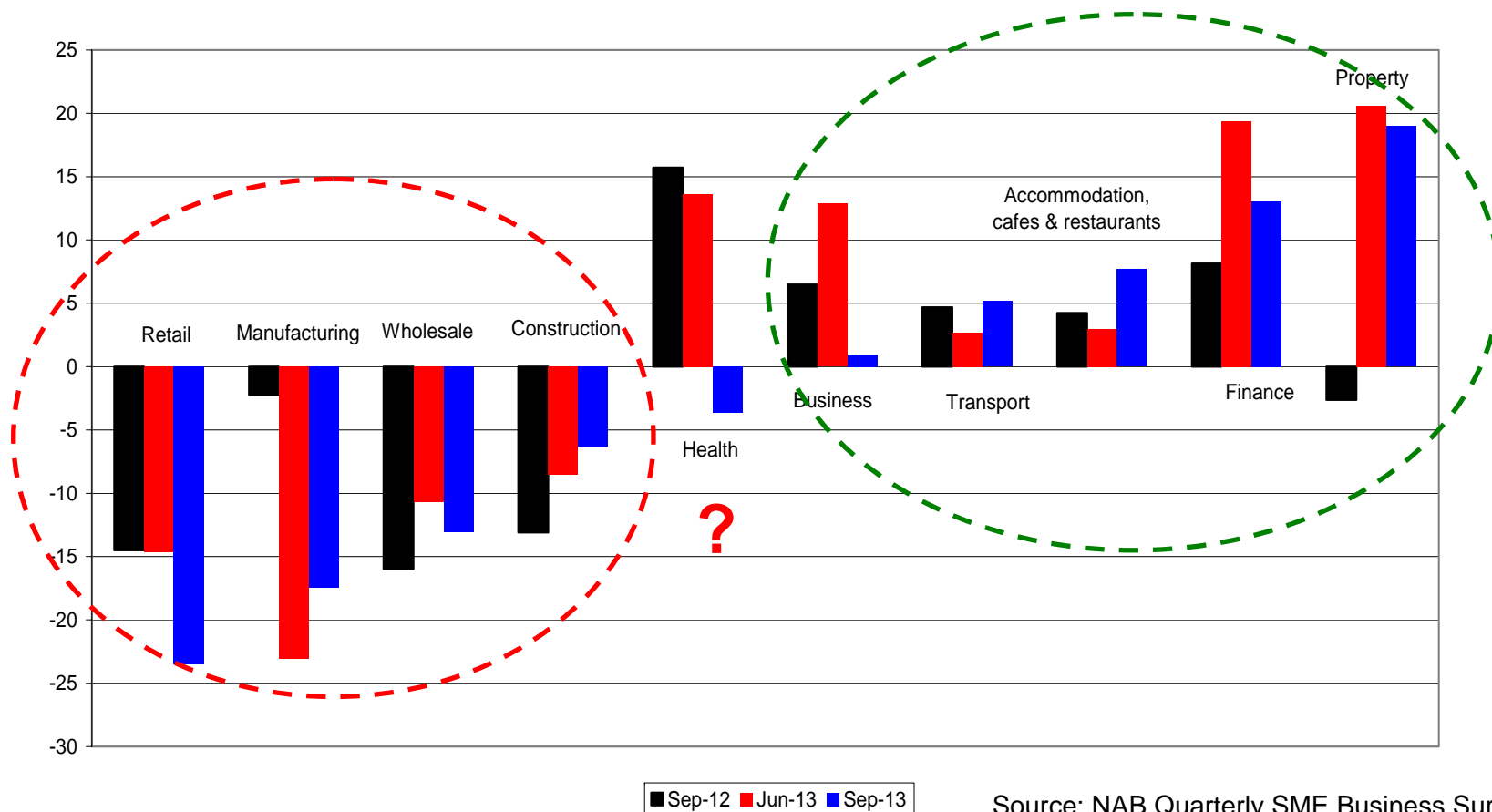


SME business conditions by industry sector



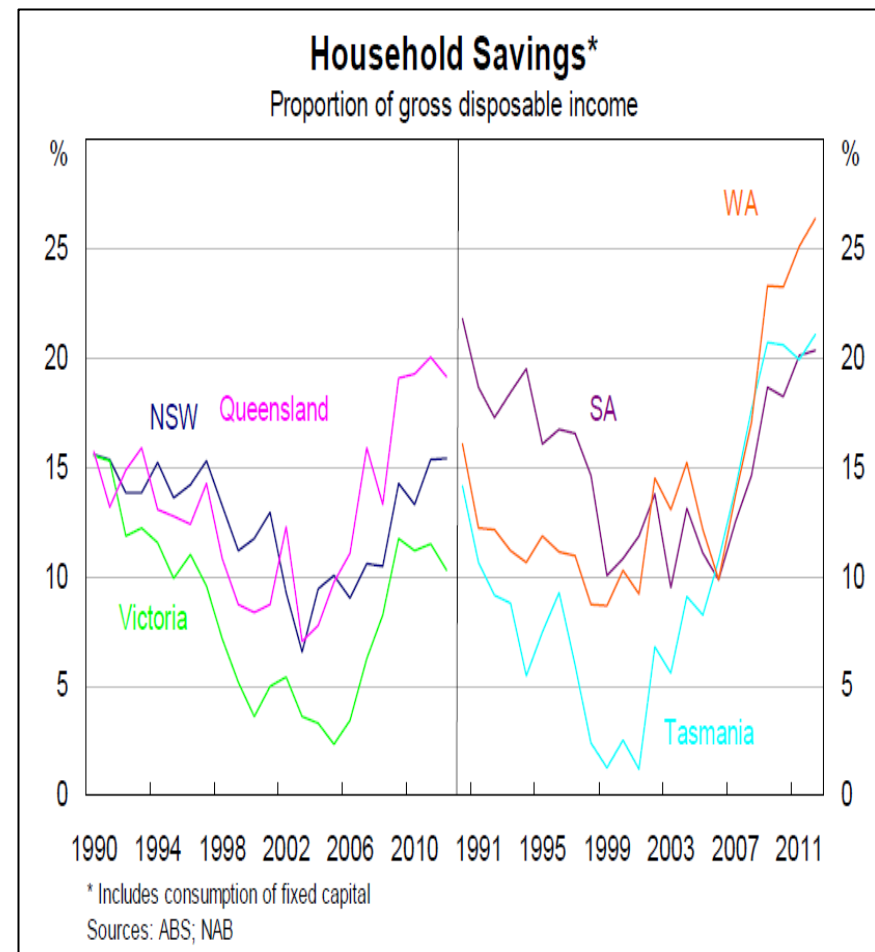
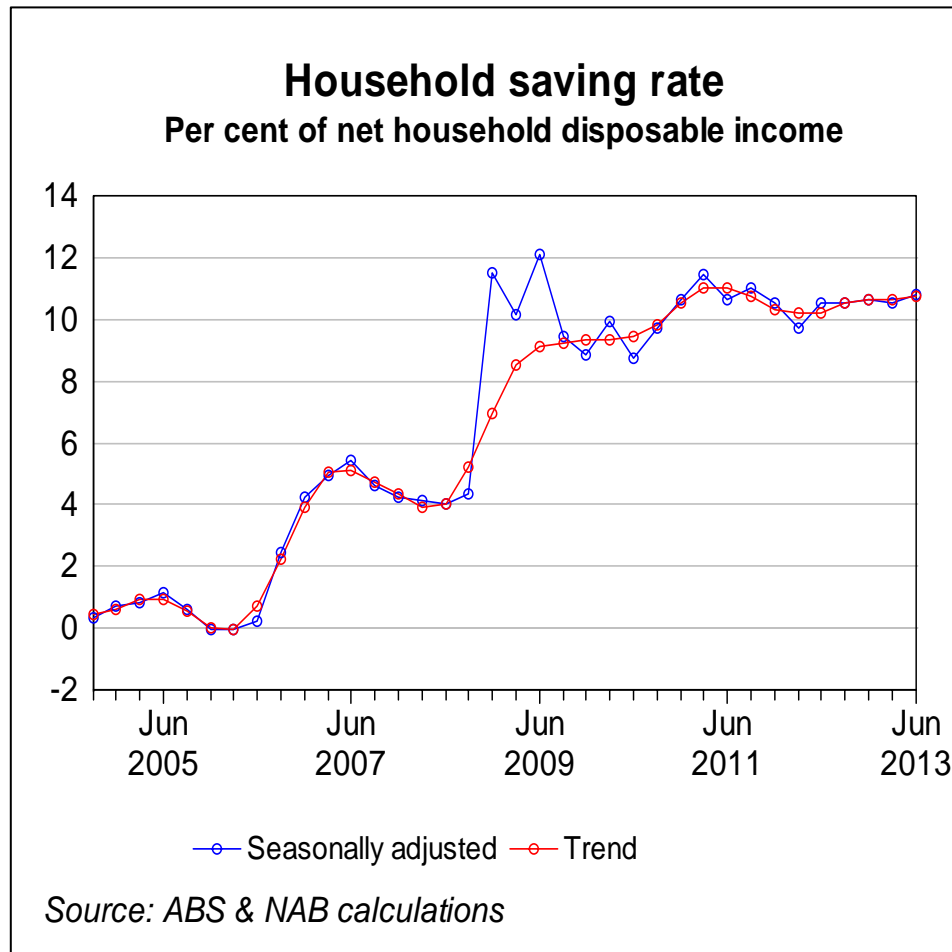
SME's still "multi-speed" with some sectors - particularly services - (eg. Property & Finance) outperforming while others (eg. Retail, Manufacturing, Wholesale) still doing it tough. Health on watch!

SME Conditions by Industry sector



Will consumers remain cautious?

Yes! Consumers still saving to repair balance sheets. Lower interest rates & higher equity & house prices will help, but higher unemployment will affect job security.

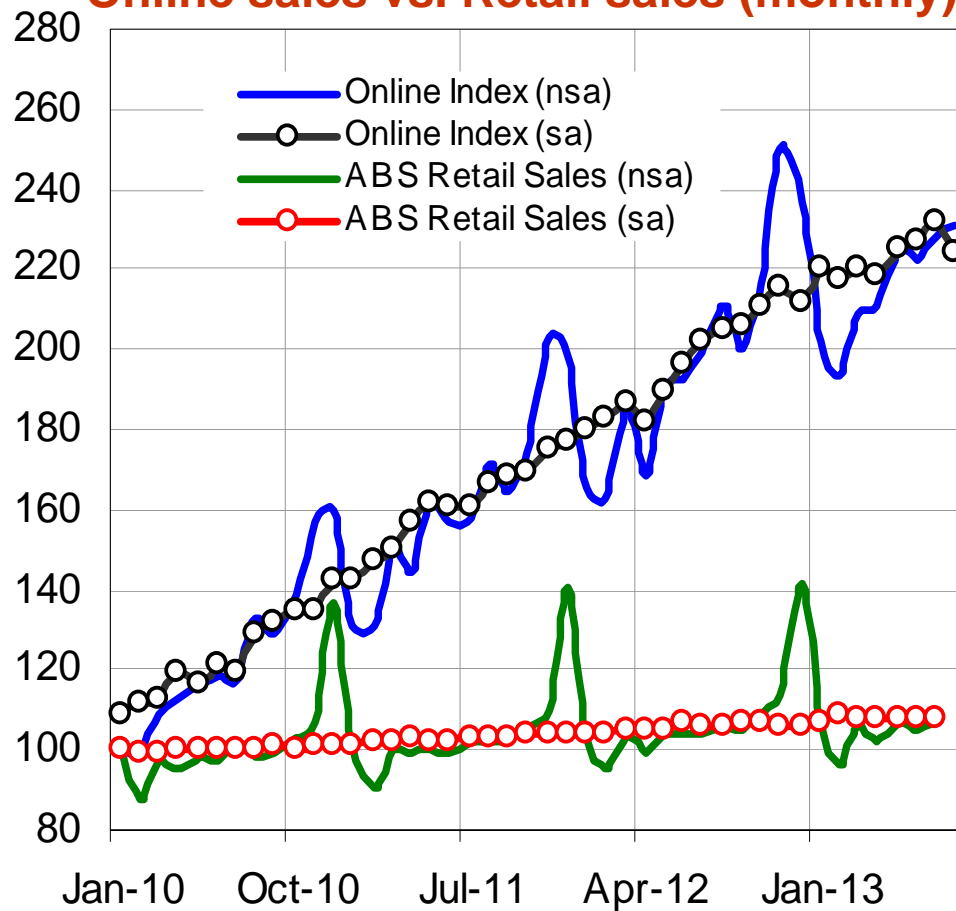


NAB Online Retail Sales Index



Australians spend >\$14bn a yr online (6.3% of retail excl. food). Growing fast but has slowed. Around 70% of online spend domestic. Average spend around \$40 per transaction.

Online sales vs. Retail sales (monthly)



“We tend to overestimate the effect of a technology in the short run and underestimate the effect in the long run..”

Roy Amara, American futurologist.

The image displays three screenshots of product pages for an iPad. The top left screenshot is from Apple, showing a price of \$629.00 and options for 6 or 12 month special financing. The top right screenshot is from eBay, showing a list price of \$499.00 and a current price of \$498.99 with free shipping. The bottom screenshot is from Amazon.com, showing a price of \$629.00 and free shipping. The Amazon page also includes a quantity selector set to 1 and an 'Add to Cart' button.

Where to from here for retail?

The future of retail is multi-channel, building brands & multiple touch-points. Stores have to become “FUN” to visit.

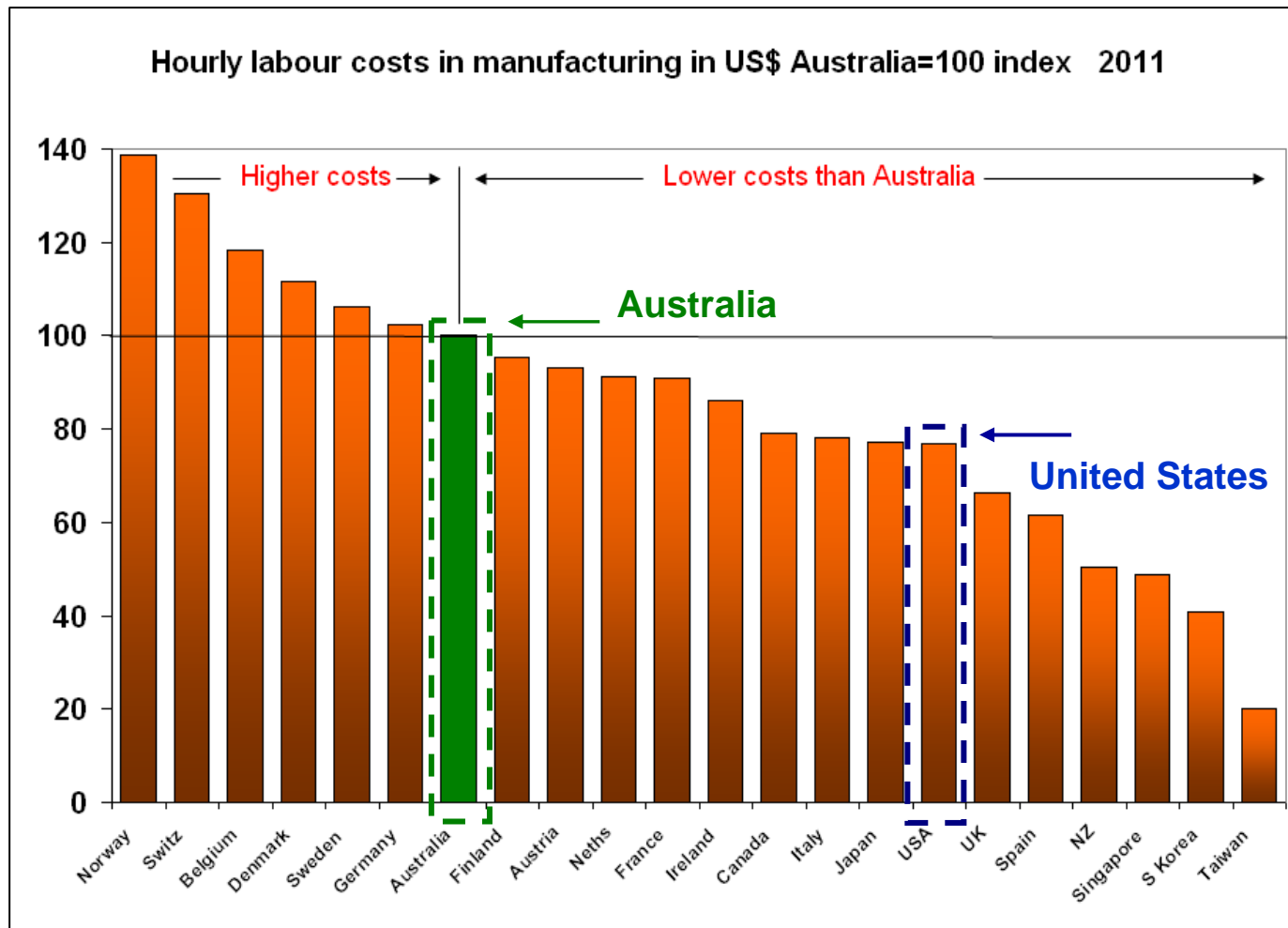


“Every morning, at opening time, the crew picks one child to “unlock imagination” with an over-sized key to open the store for the day!”



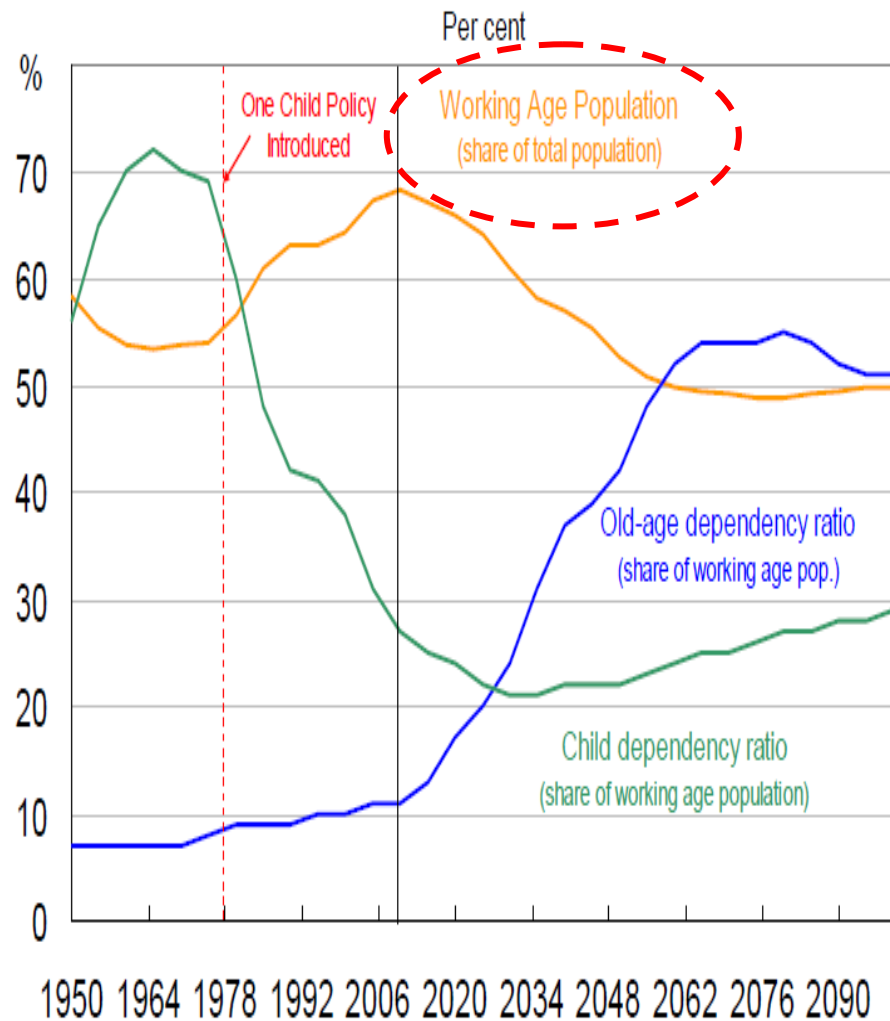
Manufacturing

Australian manufacturing has shifted up the global cost curve (esp. against other advanced economies). The future? Leverage our digitally-driven infrastructure, customisation and focus on sustainability.

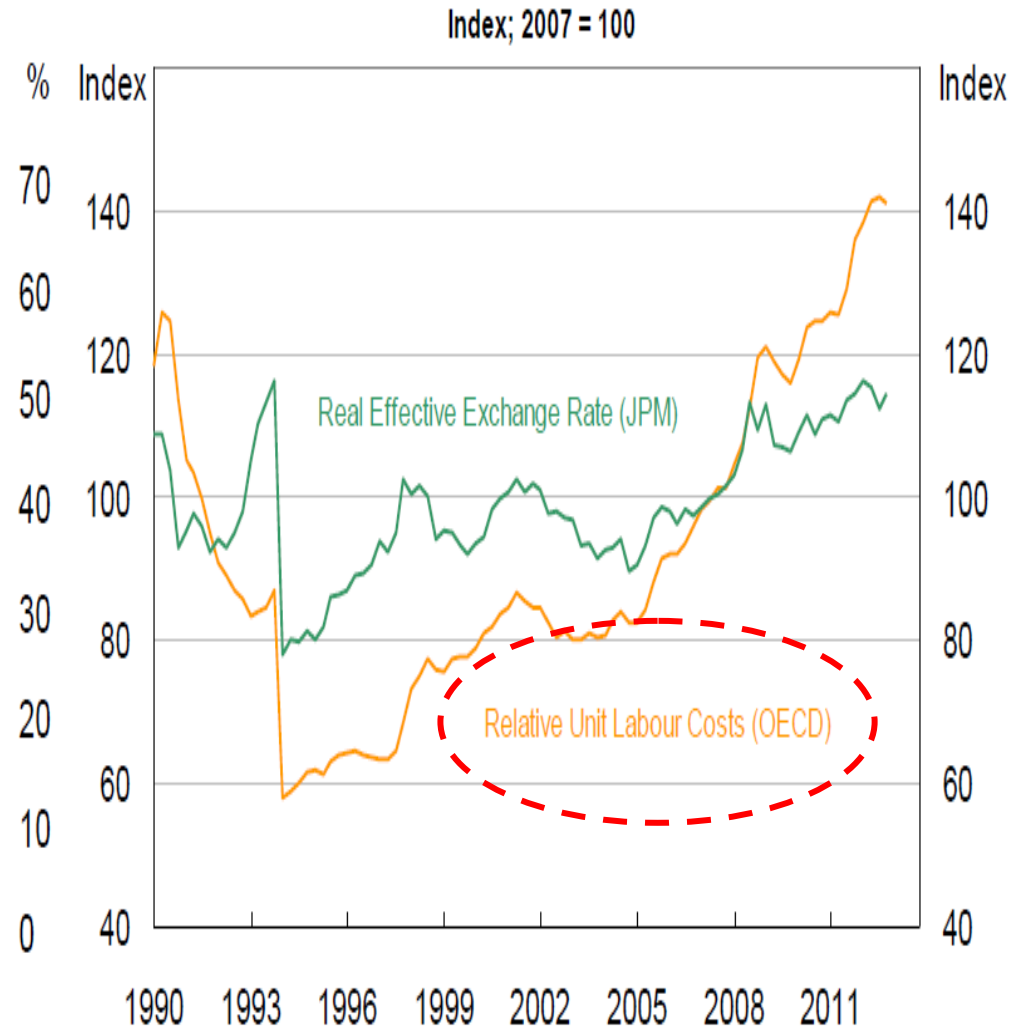


Chinese firms also moving up the cost curve

Shifting demographics & higher cost structure has seen China lose some allure as base for multinationals.



Sources: UN Database



Sources: JP Morgan; OECD

"It is one thing to sell a homogenous minerals commodity to a minerals-hungry industrialist in China, and another thing entirely to design and market a sophisticated personal service to someone living in that culture...."

Former Treasury secretary & lead author of the White Paper on Australia in the Asian Century, Dr Ken Henry.



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Health in Focus



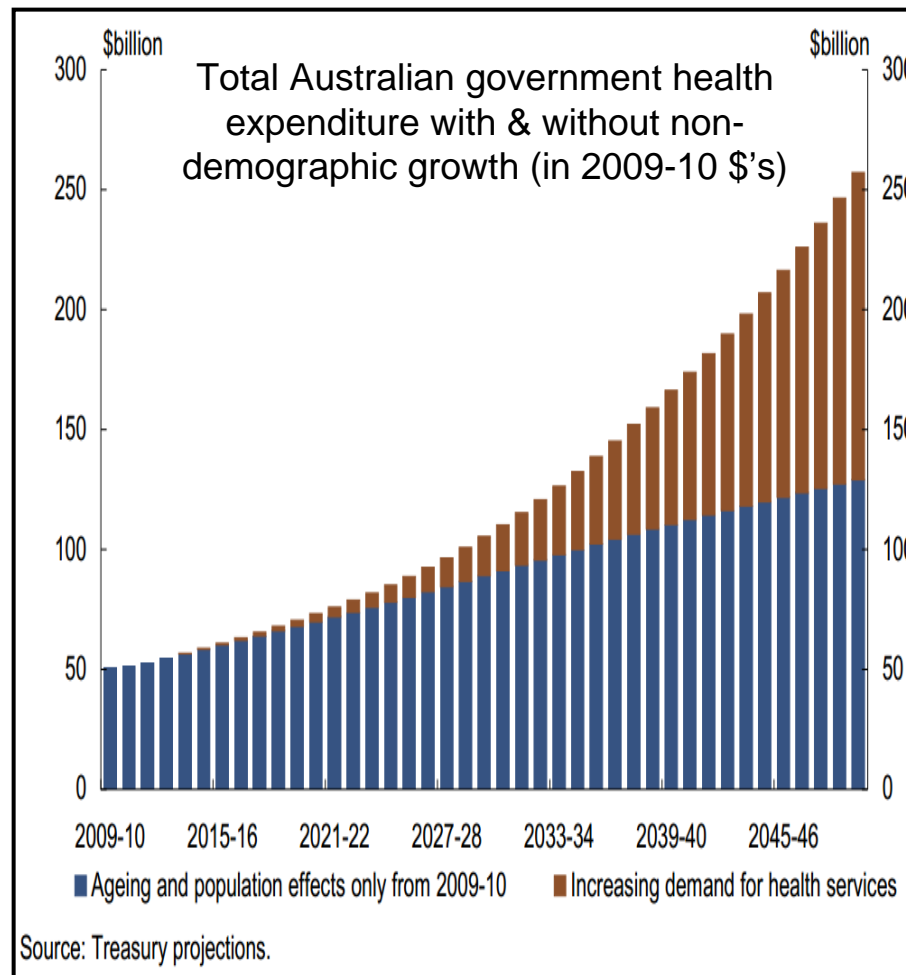
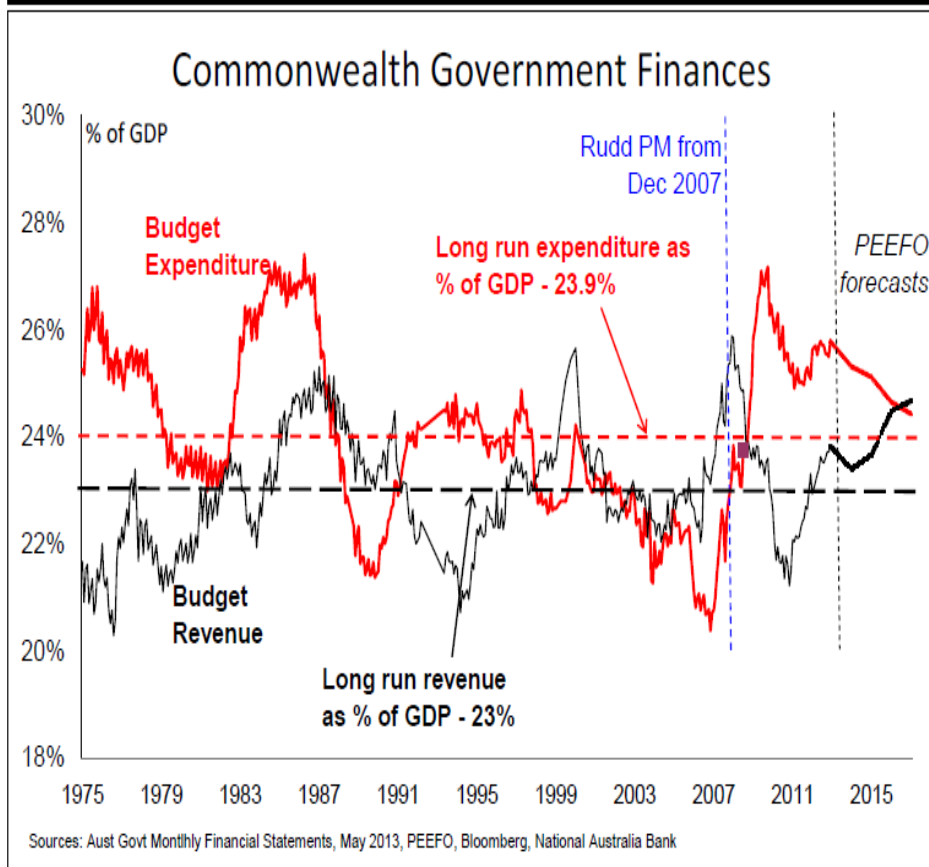
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Government finances & health expenditure

The problem for Government is on the spending side. And against the backdrop of demographic forces & ongoing global economic uncertainty, the cost of healthcare continues to rise.



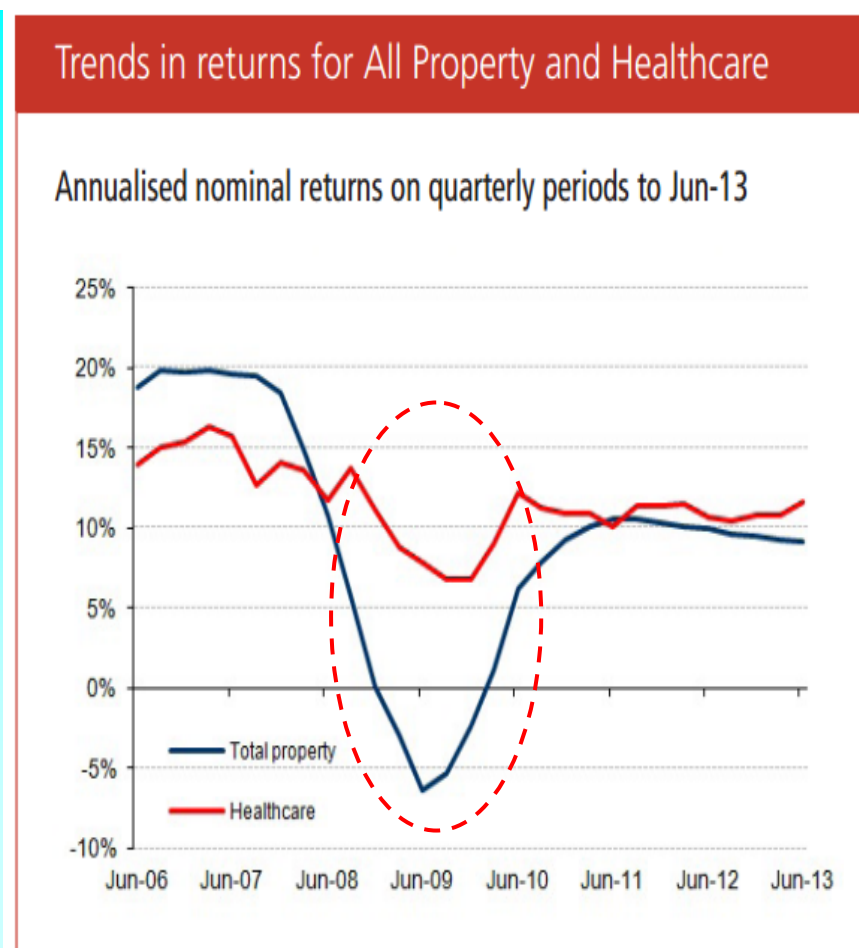
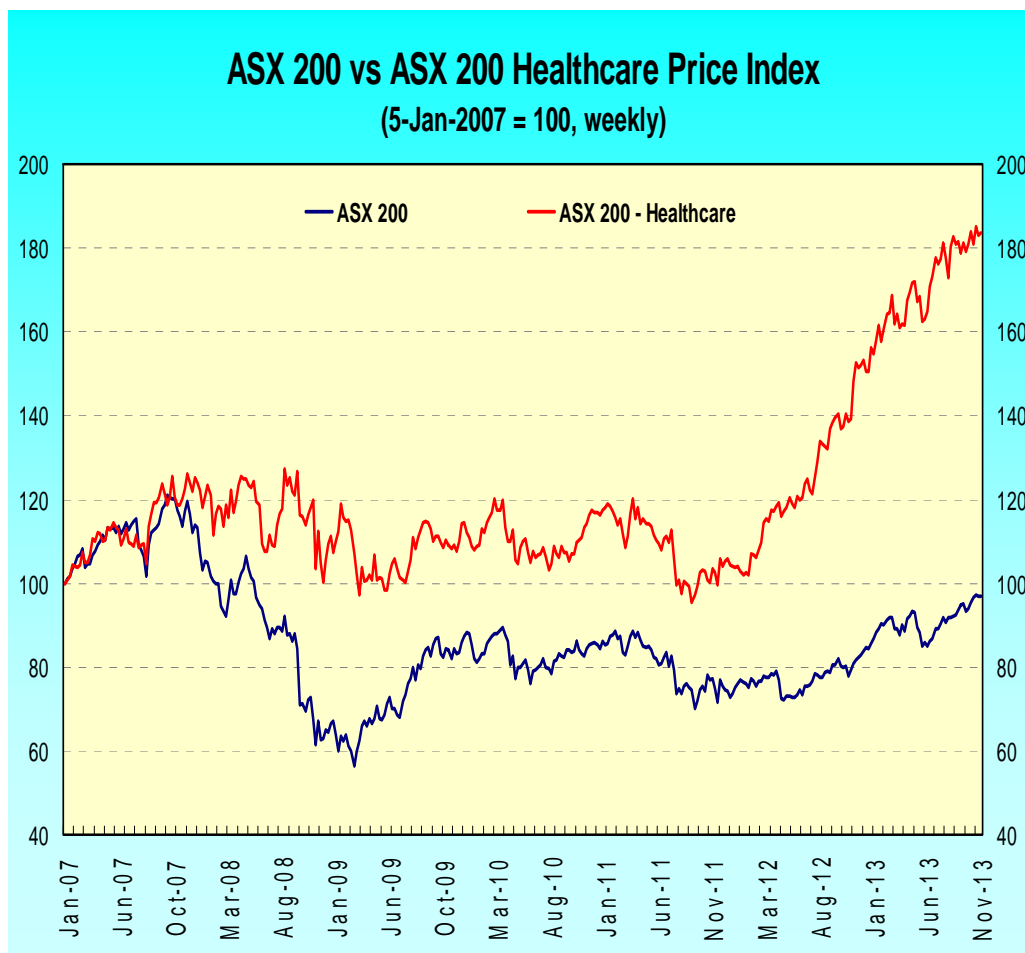
Australia's Federal budget outlook



ASX S&P 200 v Healthcare & Property returns



The healthcare sector has been the standout performer on the Australian stock exchange. Healthcare property also mitigates downside risk - underperforms pre-GFC & outperforms during and post GFC.



Source: IPD

Most efficient healthcare countries

Australia already has one of the OECD's most efficient health systems, in terms of life expectancy achieved for dollars spent.



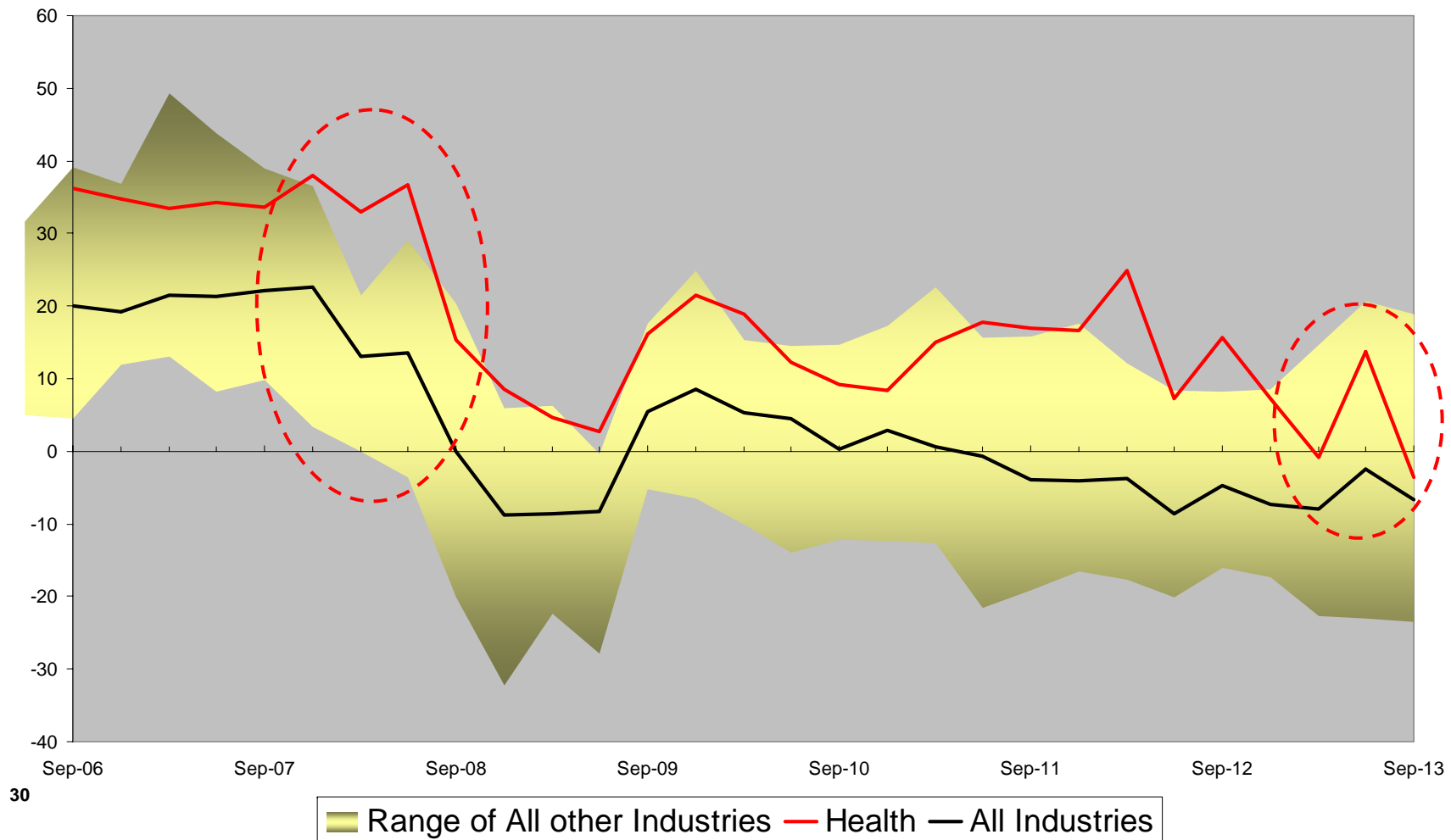
Rank	Country	↓	Efficiency score	Life expectancy	Health-care cost as a percentage of GDP per capita	Health-care cost per capita
1	Hong Kong		92.6	83.4	3.8%	\$1,409
2	Singapore		81.9	81.9	4.4	2,286
3	Japan		74.1	82.6	8.5	3,958
4	Israel		68.7	81.8	7.8	2,426
5	Spain		68.3	82.3	10.4	3,027
6	Italy		66.1	82.1	10.4	3,436
7	Australia		66.0	81.8	8.9	5,939
8	South Korea		65.1	80.9	7.2	1,616
9	Switzerland		63.1	82.7	11.5	9,121
10	Sweden		62.6	81.8	9.6	5,331
11	Libya		56.8	75.0	3.8	398
12	United Arab E...		56.6	76.7	4.1	1,640
13	Chile		56.2	79.0	7.0	1,075
14	United Kingdom		55.7	80.8	9.4	3,609
15	Mexico		54.9	76.9	6.4	620
16	Austria		54.4	81.0	11.2	5,280
17	Canada		53.4	80.9	10.8	5,630
18	Malaysia		52.8	74.3	3.3	346
19	France		52.3	81.7	12.5	4,952
20	Ecuador		51.7	75.6	6.1	332
46	United States		30.8	78.6	17.2	8,608

Nab business survey - health v economy

Business conditions from our external business survey shows that the health care sector consistently outperforms the broader economy.



Business Conditions (net balance, s.a.)

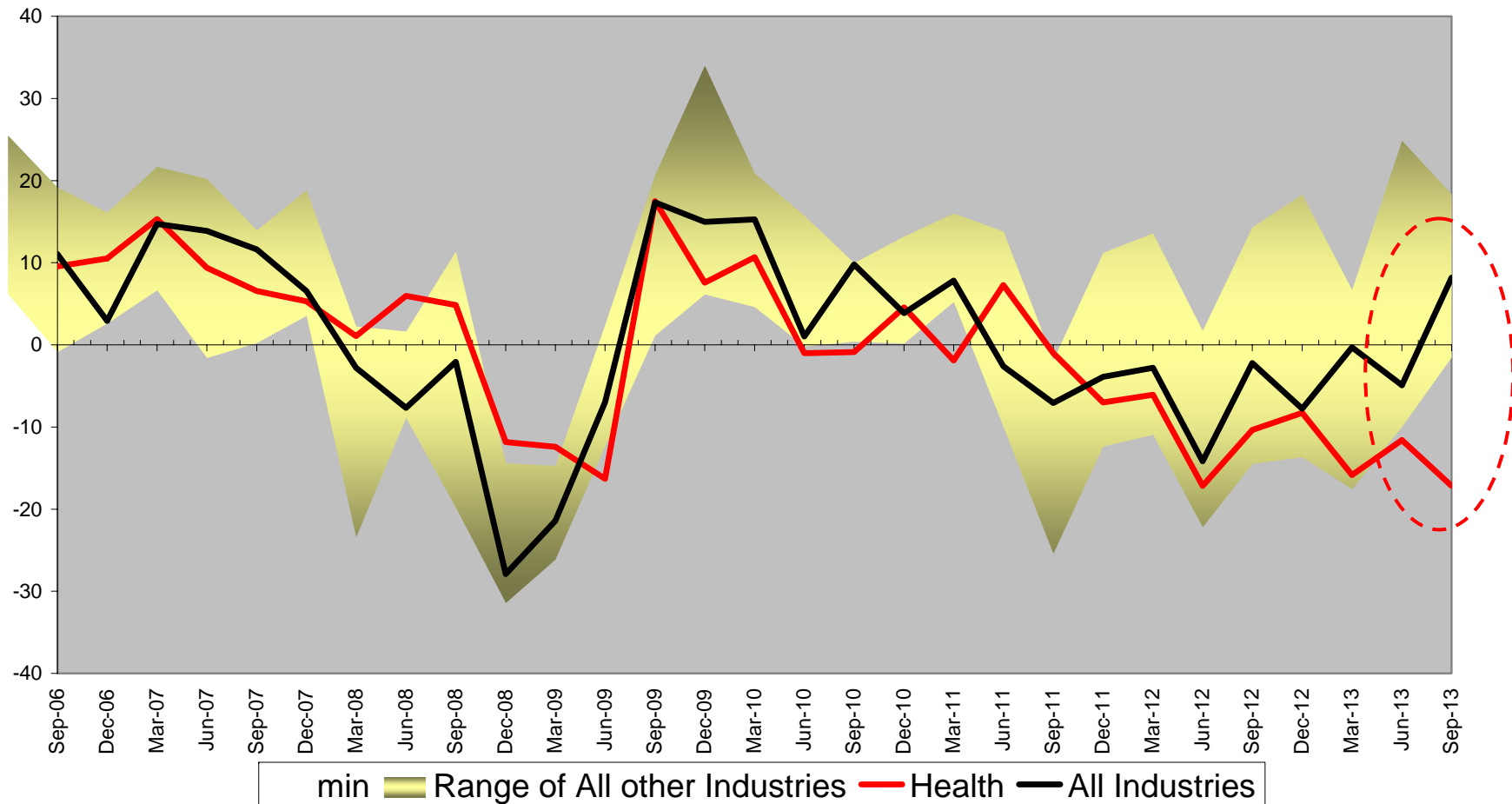


Nab business survey - health v economy

However, health lags the economy for confidence. Gap between confidence in health and the broader economy is now at its widest point in history of the SME survey.



Business Confidence (net balance, s.a.)

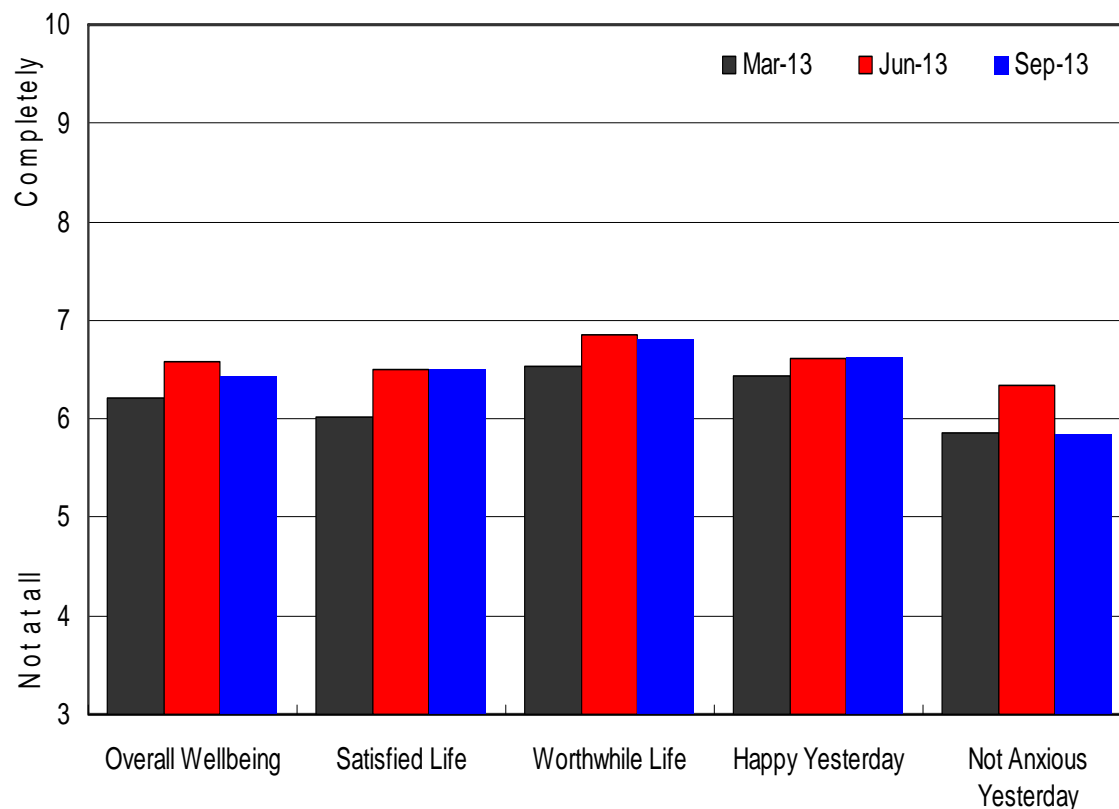


NAB Wellbeing Index



National wellbeing deteriorated slightly in Q3 in line with more subdued economic conditions with significant fall in WA driven by much higher levels of anxiety!

Overall Wellbeing Index

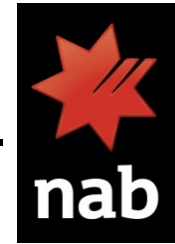


In Q3 2013, wellbeing was typically highest for those who:

- *resided in a rural towns/bush;*
 - *earned >\$75,000;*
- *were aged 50+ and female;*
- *were married or widowed;*
- *were without children;*
 - *lived in a 2 person household;*
- *had a diploma or tertiary qualifications;*
 - *were retired;*
- *lived in Tasmania.*

The Business of Selling “Happiness”

“Happiness is not a goal, it’s a by-product”, Eleanor Roosevelt.

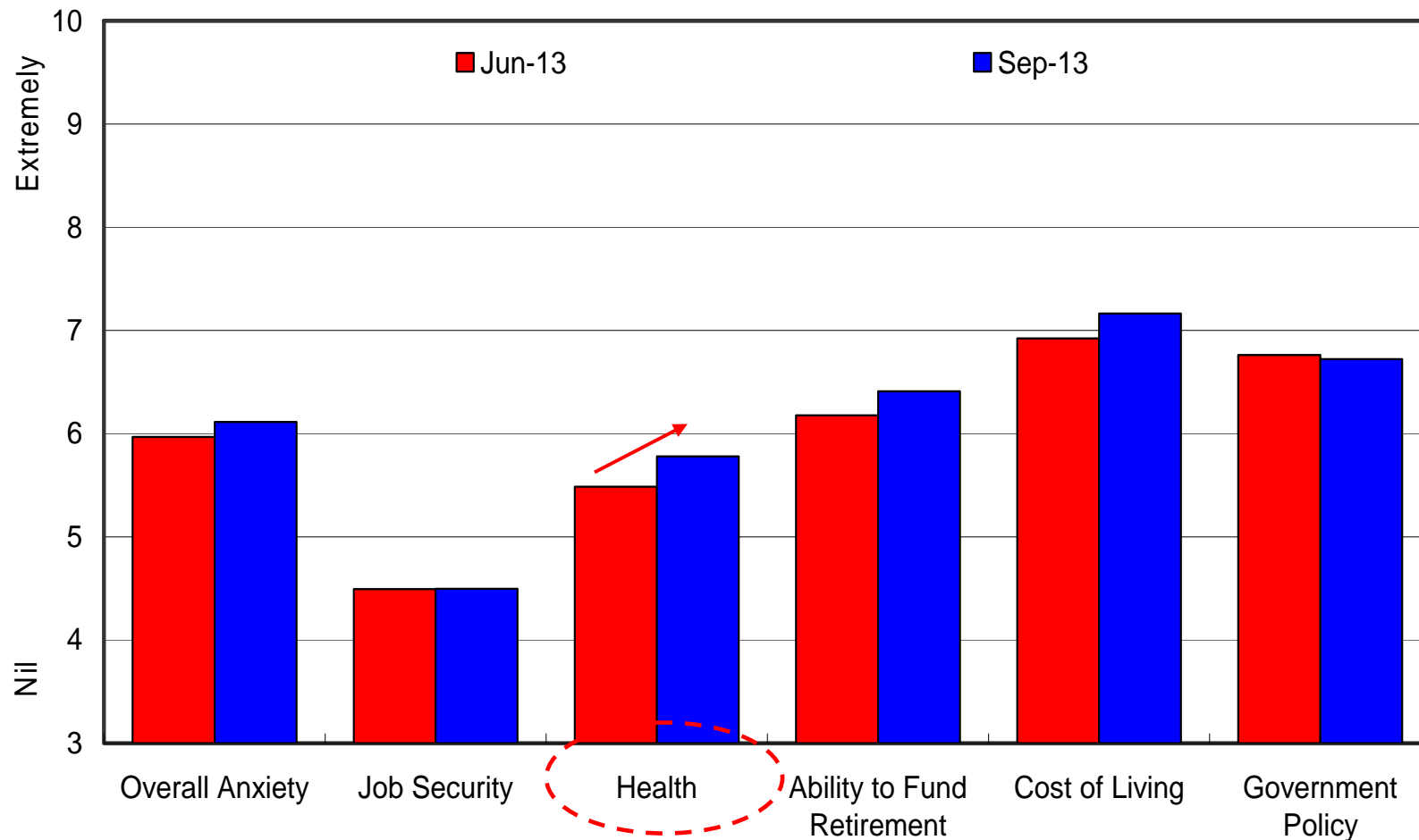


NAB Consumer Anxiety Index

Consumer anxiety still greatest around rising “cost of living”. Consumers are becoming more concerned about their ability to fund their health needs.



Overall Consumer Anxiety Index



Are we a nation of whingers & worriers?

The challenge is to capture how people define “quality of life” & “cost of living”. But... what is clear is health spending will rise, however much costs fall!



Australia has become a nation of whingers ☆

By MICHAEL PASCOE April 4, 2013, 2:08 p.m.



thank you



Important information

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