

The health of the economy and the economy of health

Presented by Chris Caton
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Things I Found in My Research

- Old doesn't mean infirm
- 72% of women, 84% of men aged 80-84 have no difficulty walking at 1.45km per hour



Things I Found in My Research

- “I feel just like a young man...
who’s got something very bad wrong with him.”



Population Growth by 2027 (from 2007)

	%	Number
0-14	5	0.2m
15-64	13	1.8m
65 and over	86	2.4m
Total	21	4.4m

Source: ABS

Population Growth by 2047 (from 2007)

	%	Number
0-14	8	0.3m
15-64	21	2.9m
65 and over	157	4.4m
Total	36	7.6m

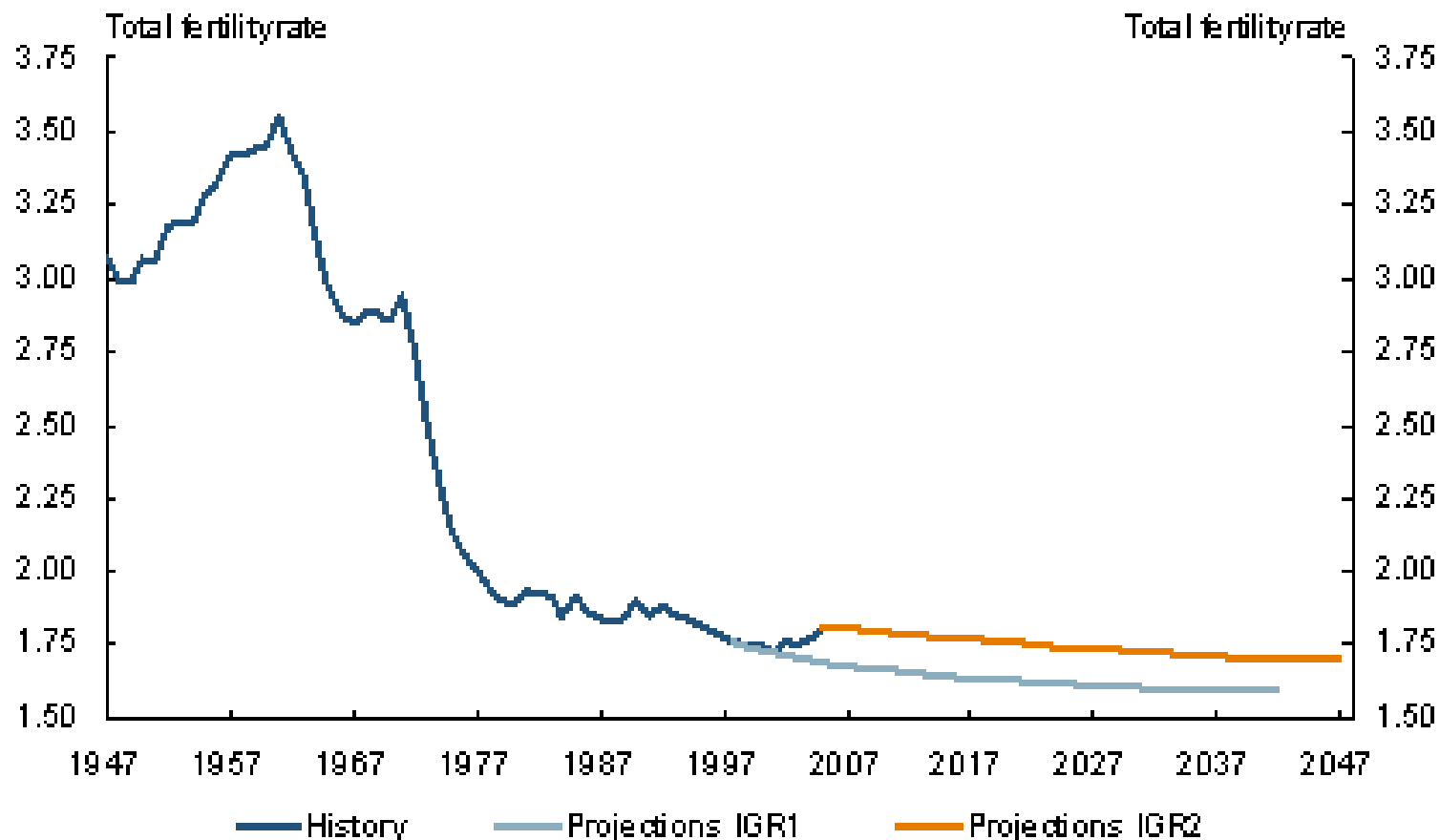
Source: ABS

What to Do?

The Three Ps

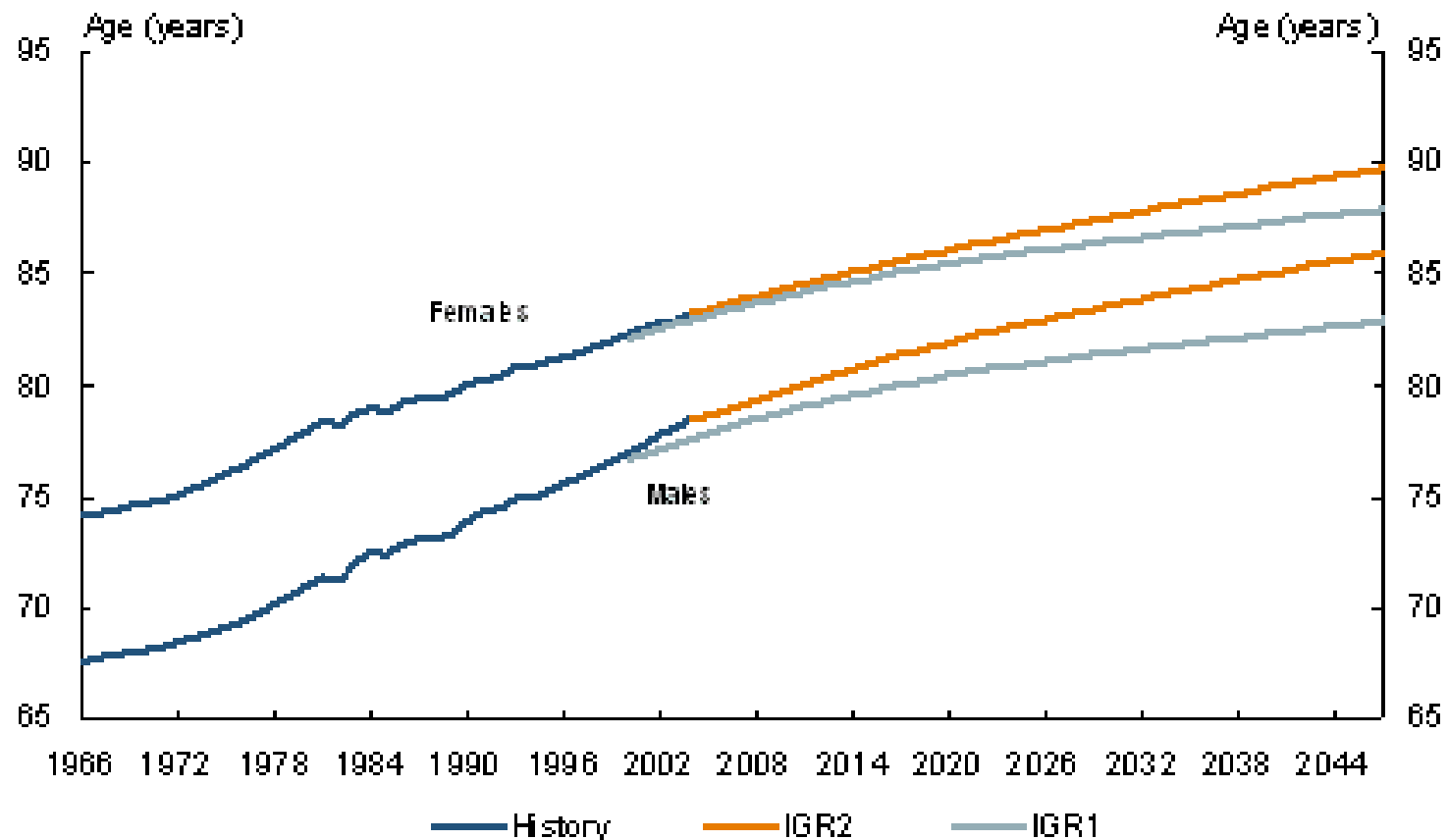
- Population
 - Birthrate
 - more young dependents
 - Migration
 - they get old too

Australian's historical and projected total fertility rate



Source: Intergenerational Report 2

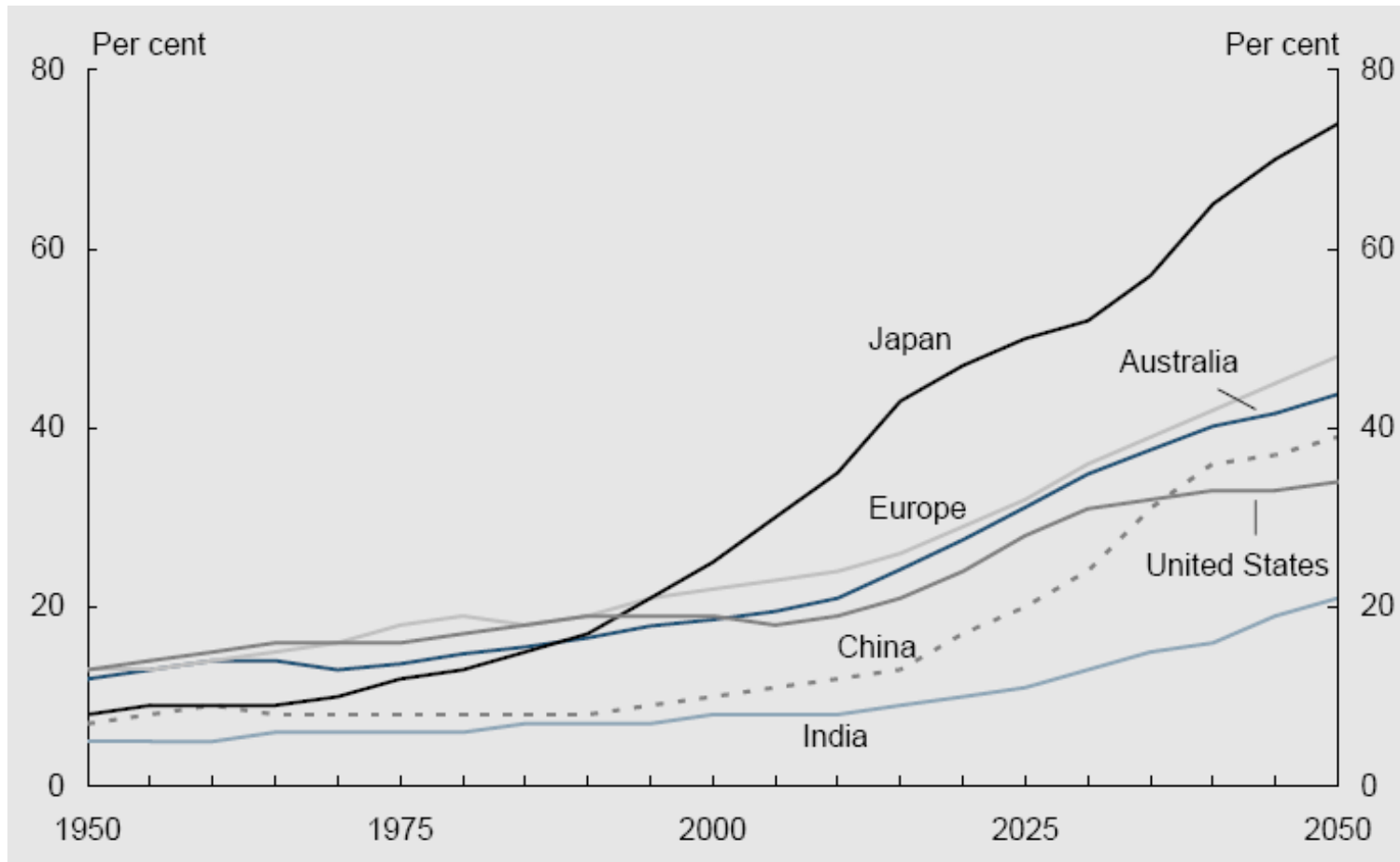
Life expectancies



Source: Intergenerational Report 2

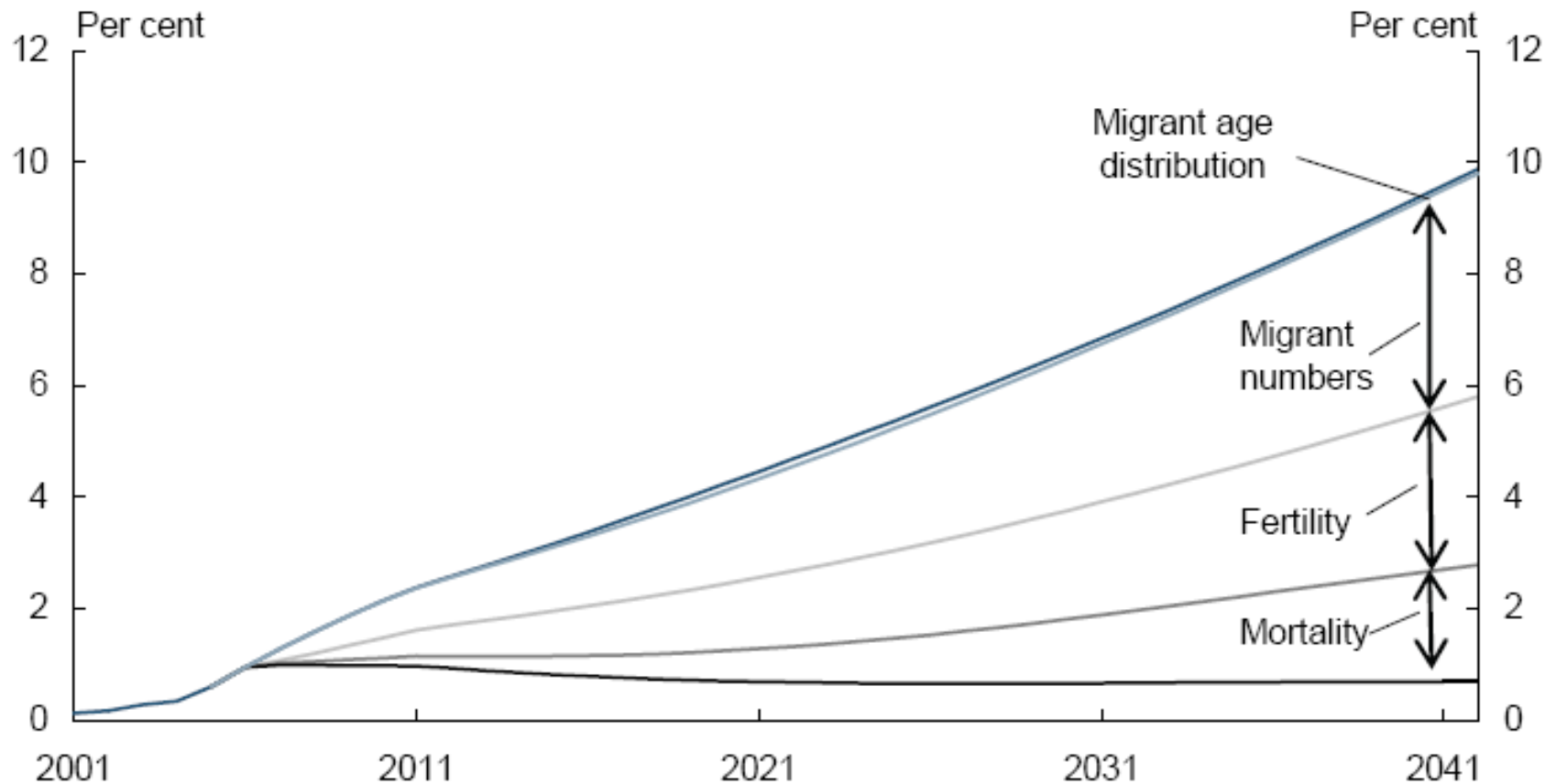
Old-age dependency ratios

Ratio of over 64-year-olds to 15-64-year-olds



Source: Treasury projections and United Nations 2006 Revision Population Database, medium variant projections

Population projections: differences from IGR1



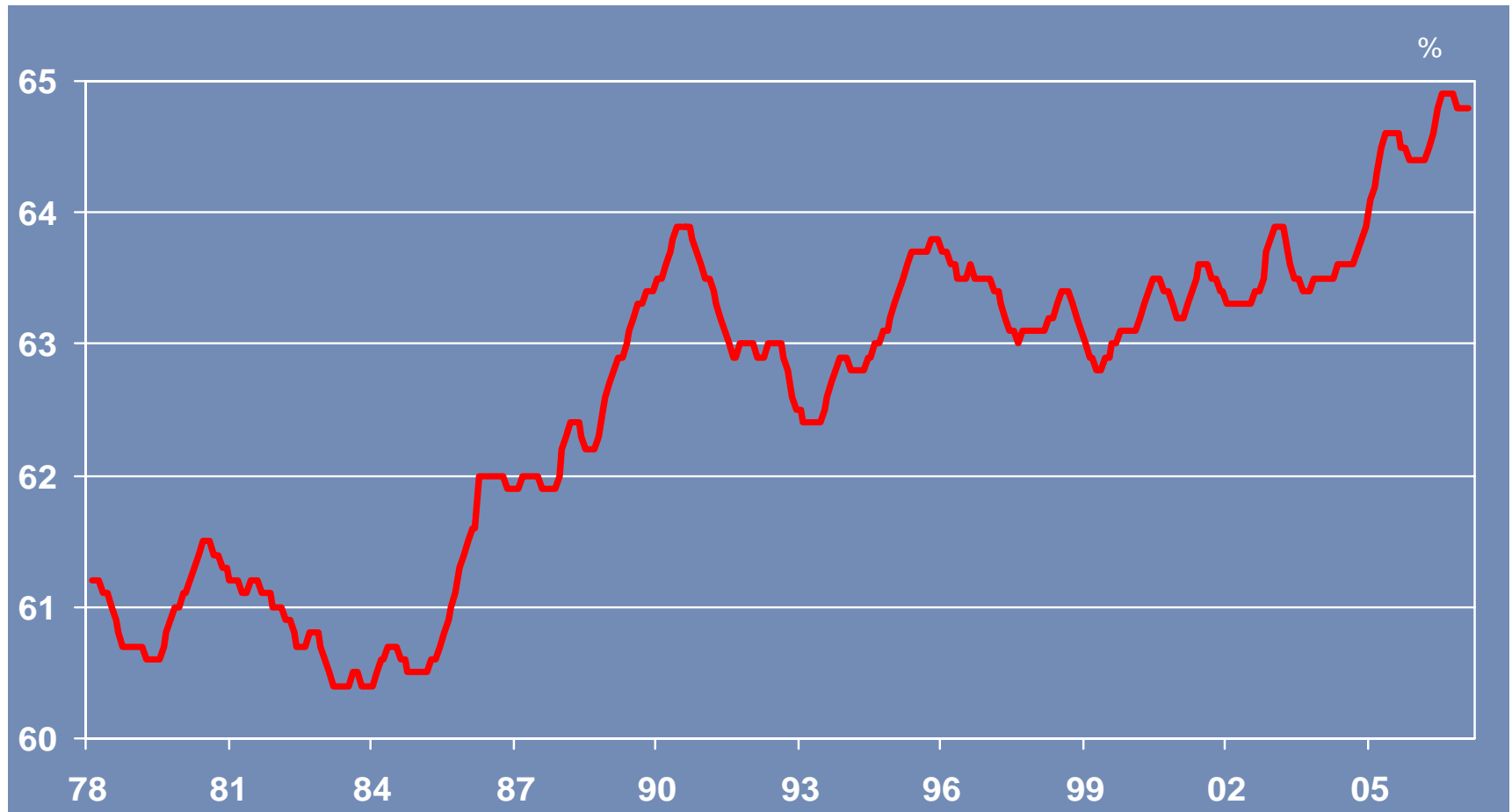
Source: IGR2

What to Do?

The Three Ps

- Population
 - Birthrate
 - more young dependents
 - Migration
 - they get old too
- Participation

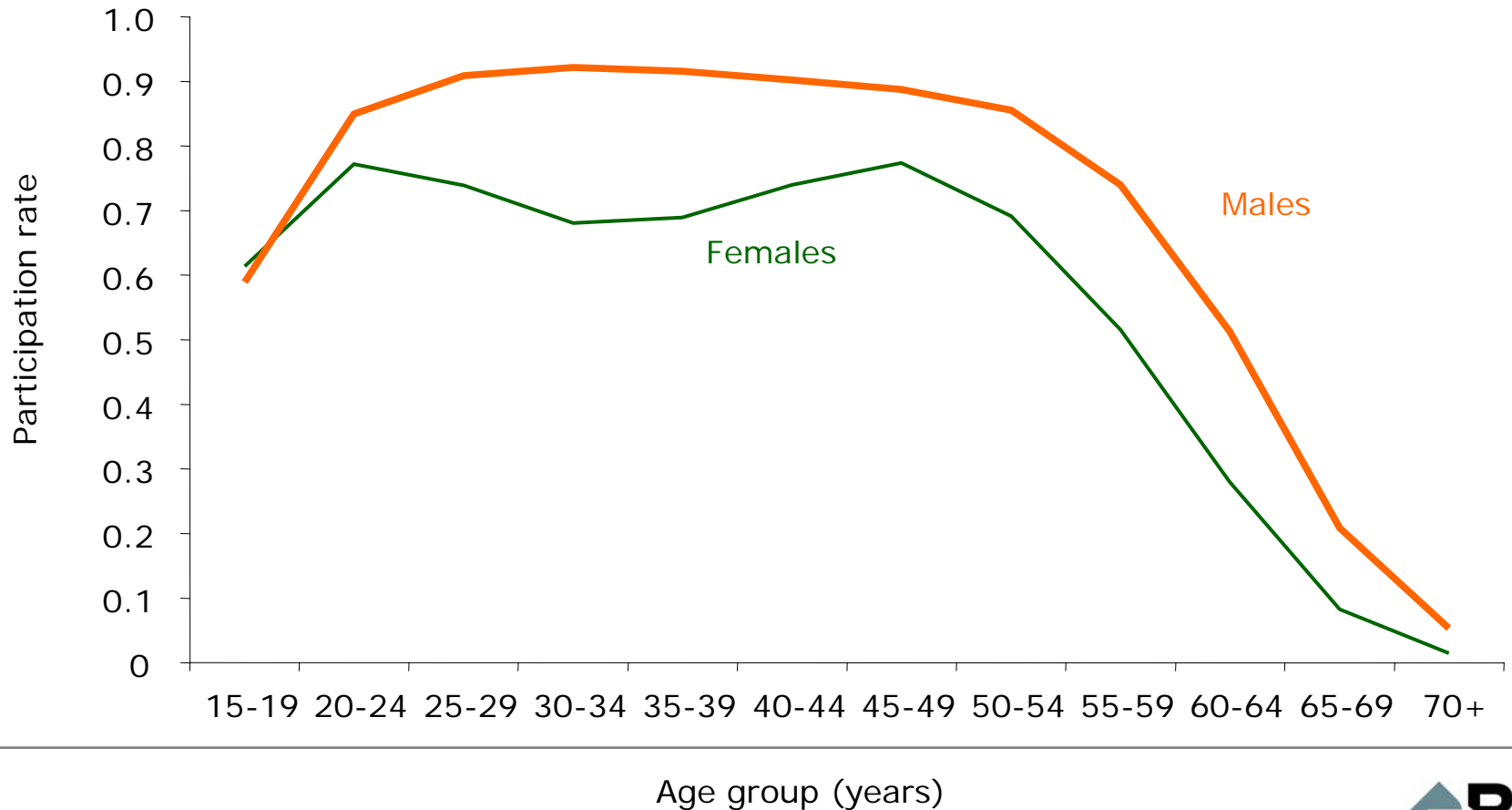
Increasing participation has been an important source of real income growth in the past...or has it?



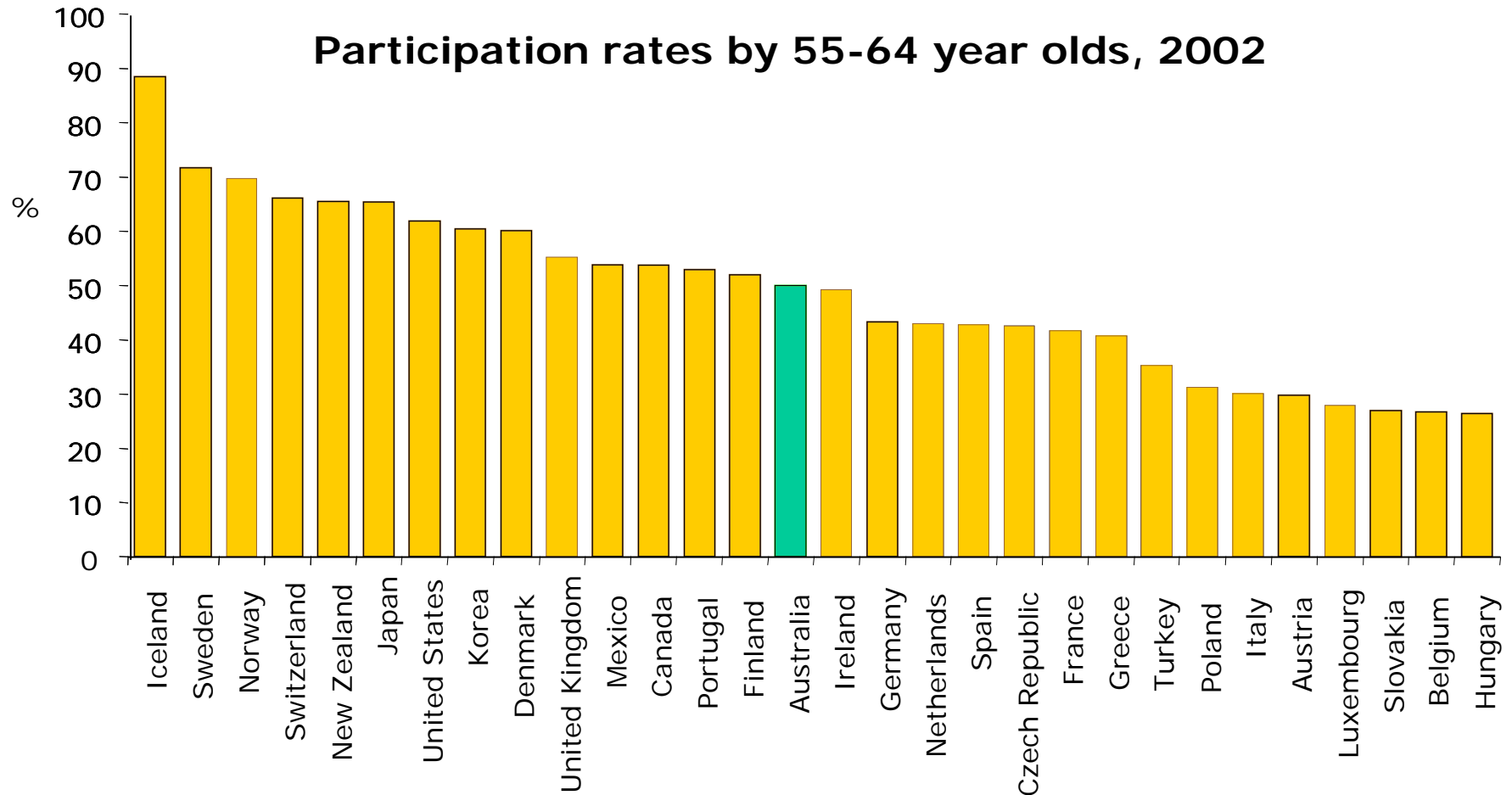
Source: ABS

Labour force participation drops substantially with age...

Participation rates by age group, 2003-04



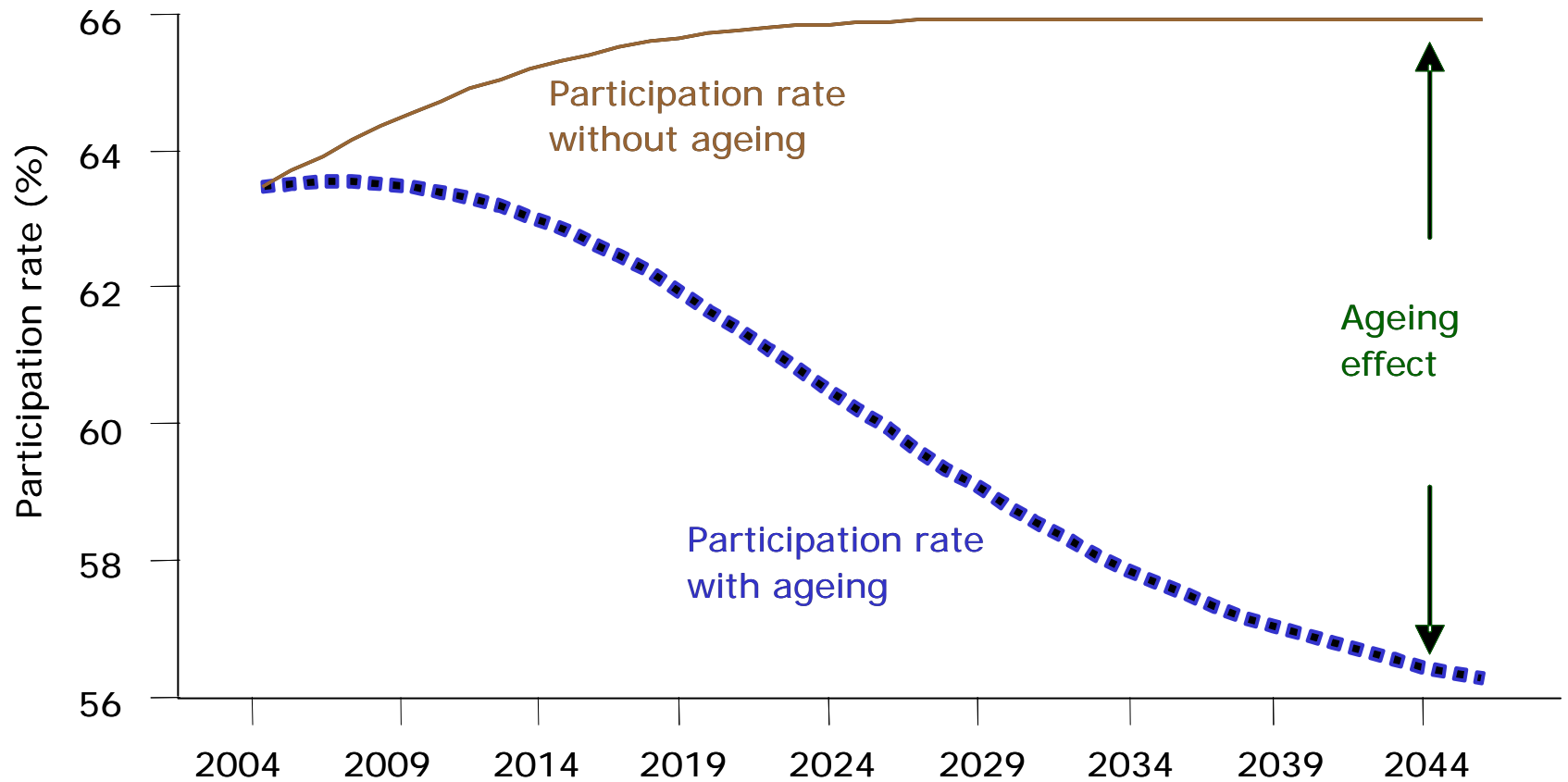
...more so in Australia than in many other Western countries.



Source: OECD, Employment Outlook 2004

On unchanged policies, participation will decline by 7 percentage points over the next forty years...

Aggregate labour force participation rate, 2002-03 to 2050-01



Source: Productivity Commission, Economic Implications of an Ageing Australia, March 2005.

What to Do?

The Three Ps

- Population
 - Birthrate
 - more young dependents
 - Migration
 - they get old too
- Participation
 - women and elderly are target groups
- Productivity
 - Makes a substantial difference
 - No magic pudding, but we should save more

Growth in real GDP and real GDP per person*

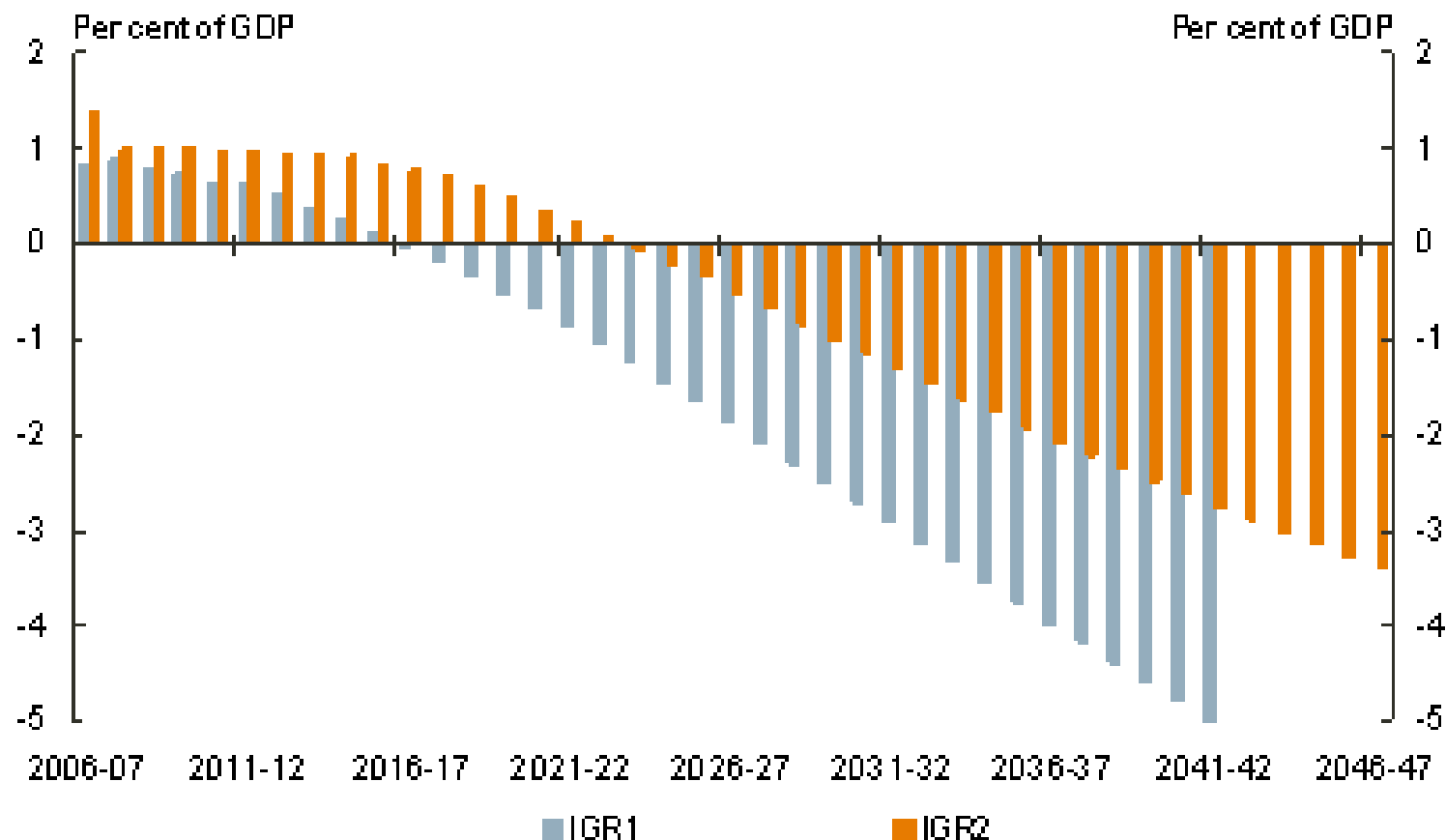
Decade	Labour productivity growth	Employment Growth	Real GDP growth **	Real GDP per person growth
1980s	1.2	2.4	3.4	1.8
1990s	2.1	1.2	3.3	2.1
2000s	1.5	1.9	3.0	1.8
2010s	1.75	0.8	2.6	1.6
2020s	1.75	0.5	2.3	1.4
2030s	1.75	0.4	2.2	1.5
2040s	1.75	0.3	2.0	1.6

* Average annual growth rates (per cent)

** 1999-2000 dollars

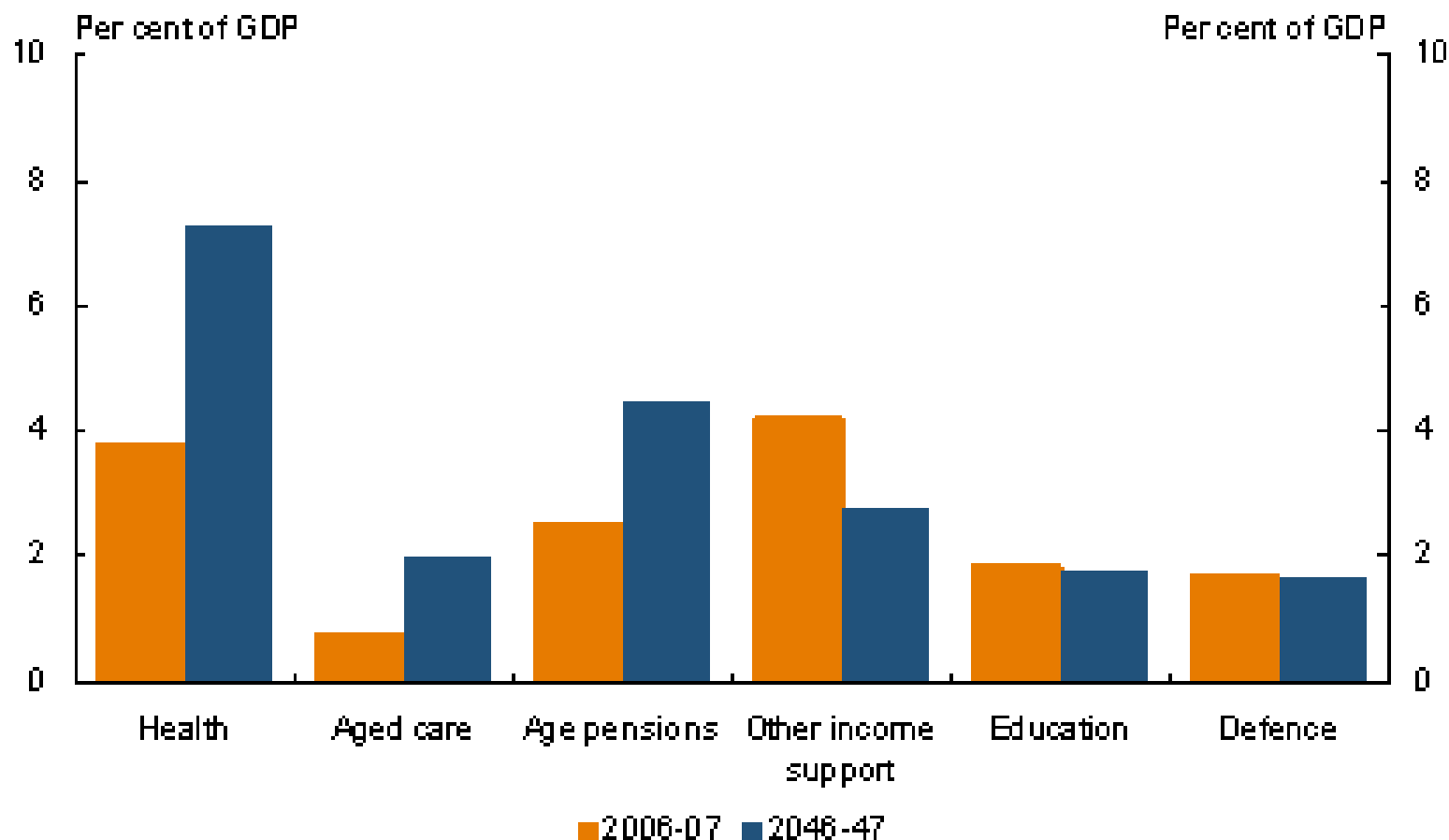
Source: ABS Cat. No. 5206.0 and 6203.0 and Treasury

Projection of fiscal pressure



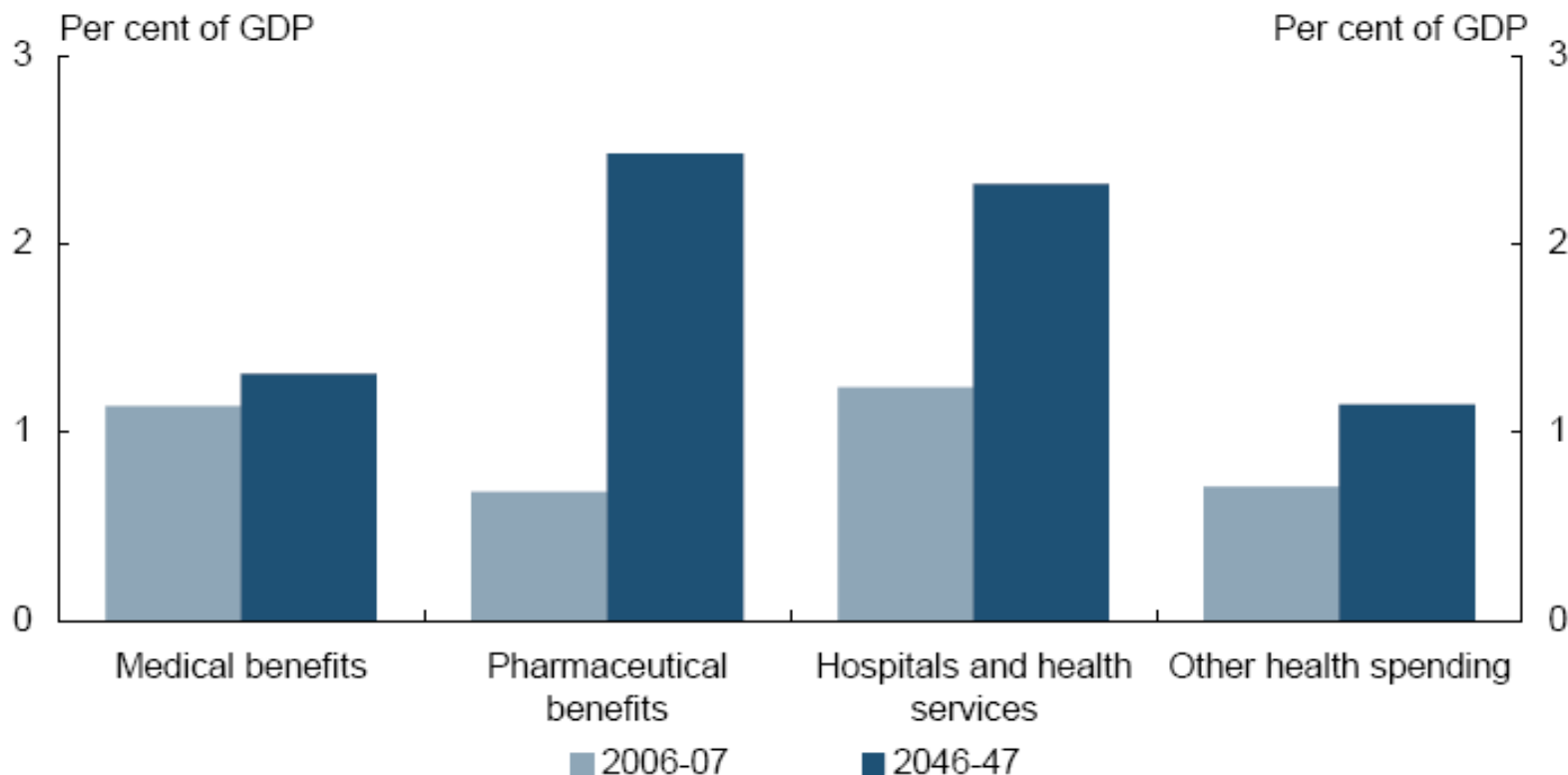
Source: Intergenerational Report 2

Projections of Australian Government spending by category



Source: Intergenerational Report 2

Projected Australian Government health spending



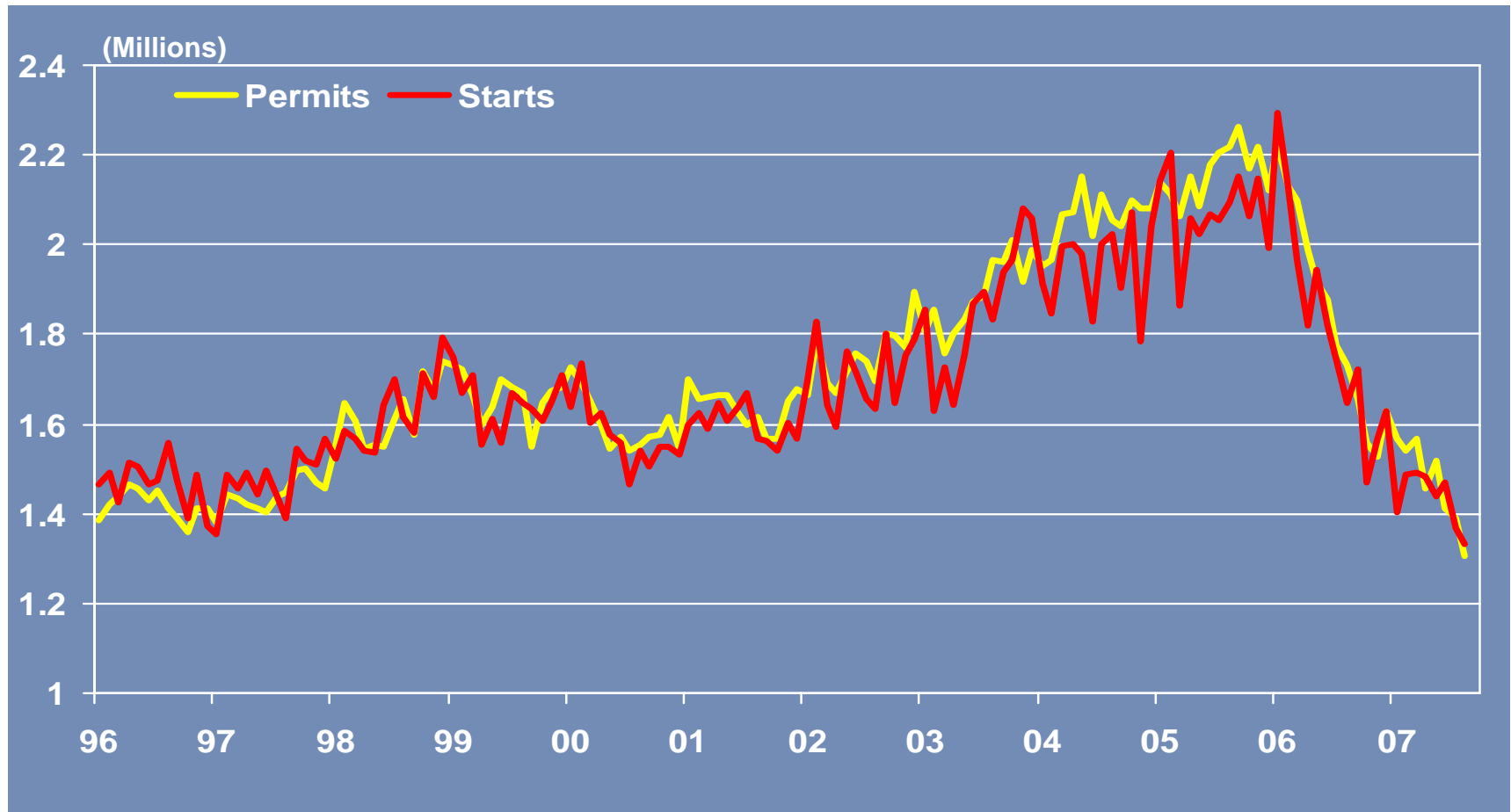
Source: Treasury projections

Projected Commonwealth demographic spending (per cent of GDP)

	2006-07	2026-27	2041-42	2046-47
Health and aged care	4.6	6.5	8.6 (9.9)	9.3
Age and Service Pension	2.5	3.5	4.3 (4.6)	4.4
Disability Support Pension	0.8	0.7	0.7 (0.9)	0.7
Parenting Payment (single)	0.5	0.3	0.3 (0.6)	0.3
Unemployment allowances	0.7	0.7	0.5 (0.4)	0.5
Family Tax Benefit (Parts A and B)	1.6	1.1	0.9 (0.9)	0.8
Total Payments to individuals	6.7	6.8	7.1 (7.4)	7.1
Education	1.8	1.8	1.8 (1.6)	1.8
Total	13.1	15.1	17.5(19.2)	18.2

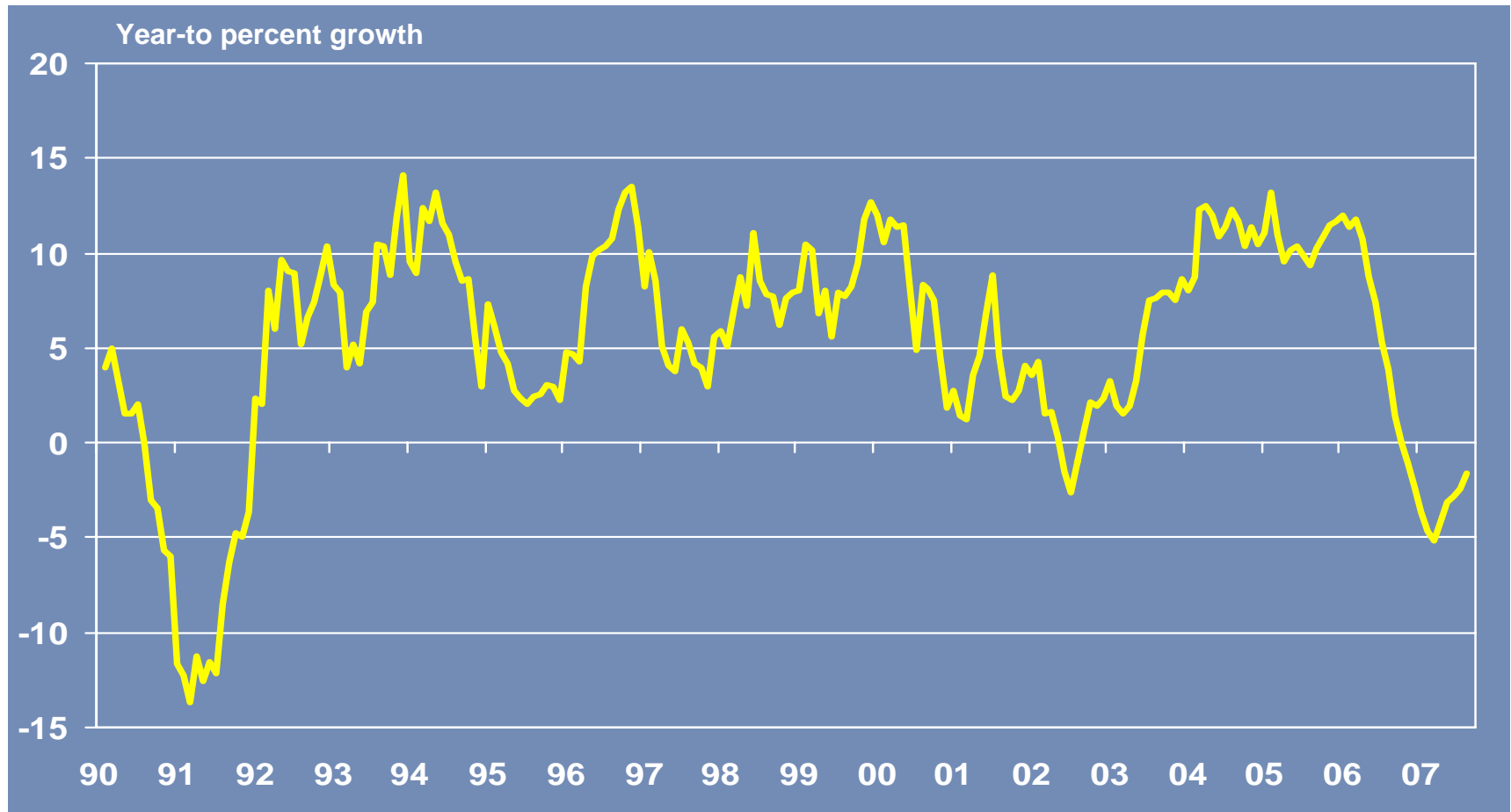
Source: Intergenerational Report 2

US Housing starts and Permits



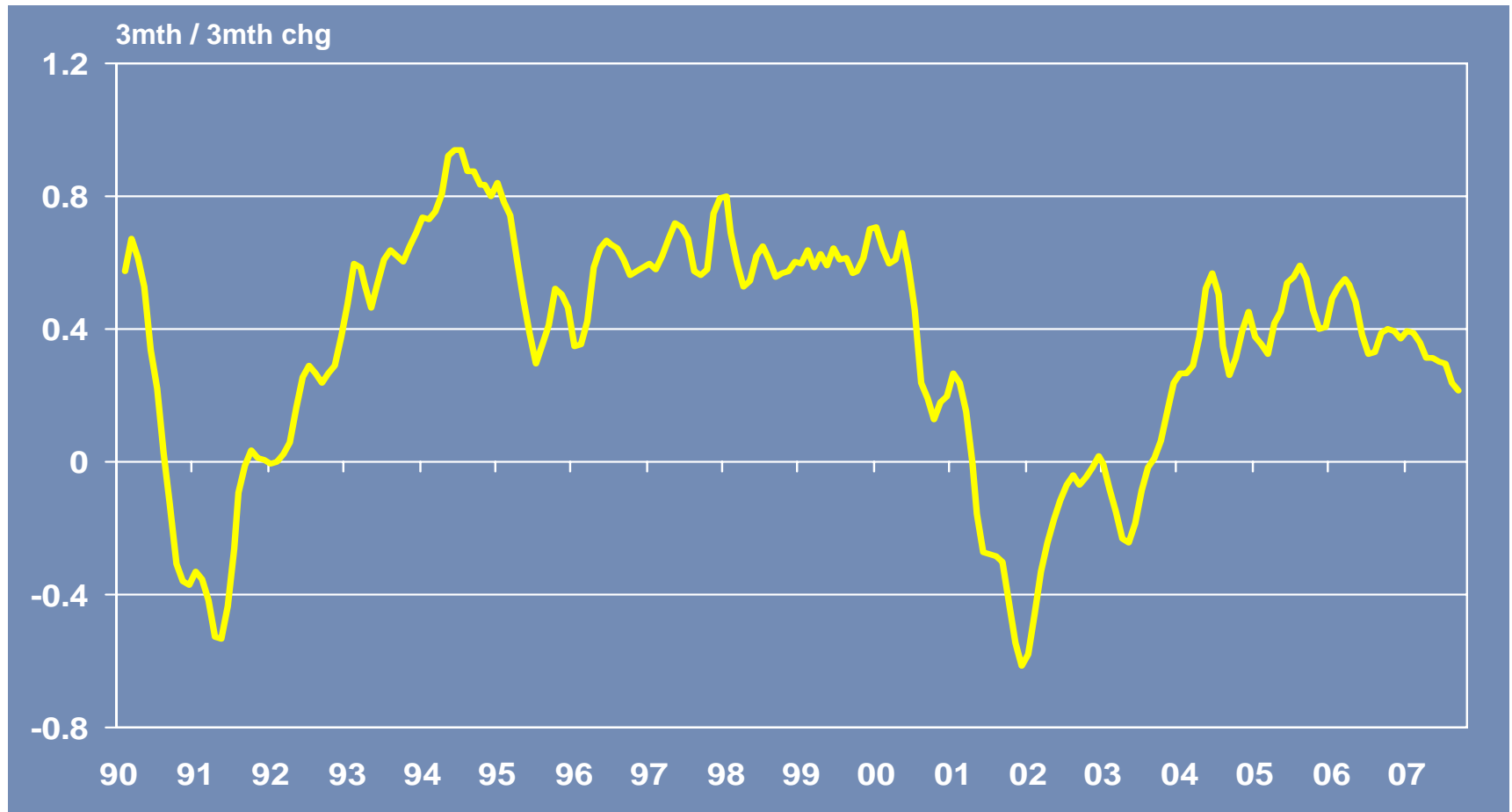
Source: Datastream

US Construction Spending



Source: Datastream

Total US Non-farm Employment



Source: Datastream

2007 Growth Forecasts (%)

Month of Forecast

	M-07	A-07	M-07	J-07	J-07	A-07	S-07
Australia	3.0	3.1	3.3	3.8	3.9	3.8	4.1
New Zealand	2.3	2.3	2.4	2.4	2.4	2.7	2.6
US	2.4	2.3	2.1	2.1	2.1	1.9	2.0
Japan	2.0	2.2	2.2	2.3	2.5	2.4	2.3
China	9.7	10.0	10.3	10.4	10.5	11.3	11.3
Germany	2.0	2.1	2.4	2.7	2.7	2.7	2.6
UK	2.6	2.6	2.7	2.7	2.8	2.8	2.8
“World”	3.3	3.3	3.3	3.4	3.4	3.4	3.6

Source: Consensus Economics

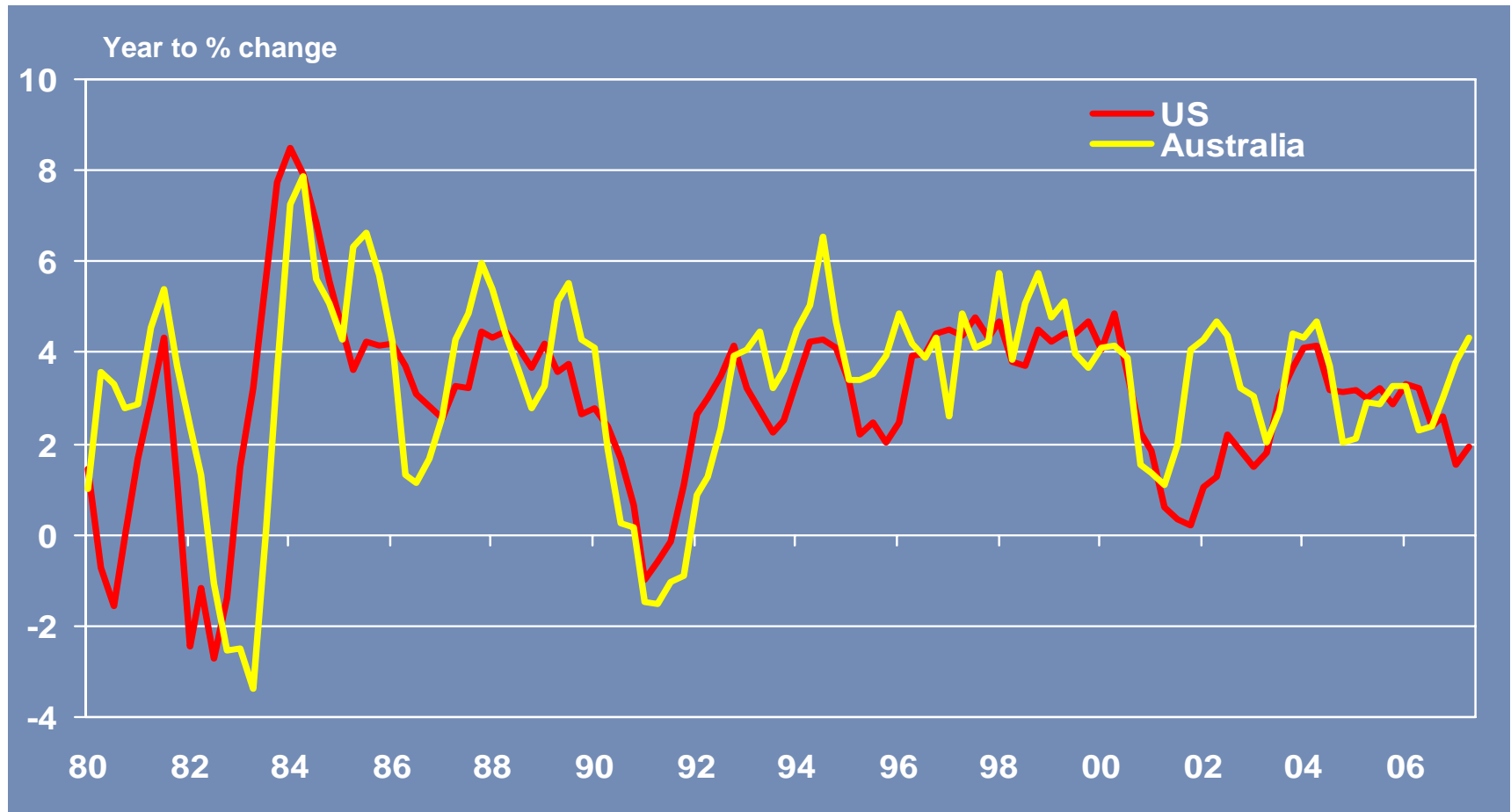
2008 Growth Forecasts (%)

Month of Forecast

	M-07	A-07	M-07	J-07	J-07	A-07	S-07
Australia	3.3	3.3	3.5	3.5	3.5	3.6	3.6
New Zealand	2.7	2.6	2.5	2.4	2.4	2.3	2.3
US	3.0	2.9	2.8	2.9	2.8	2.6	2.4
Japan	2.2	2.2	2.2	2.2	2.2	2.1	2.1
China	9.6	9.6	9.8	9.8	9.9	10.6	10.6
Germany	2.1	2.1	2.3	2.3	2.4	2.4	2.3
UK	2.3	2.3	2.3	2.3	2.2	2.2	2.1
"World"	3.4	3.4	3.4	3.4	3.4	3.4	3.5

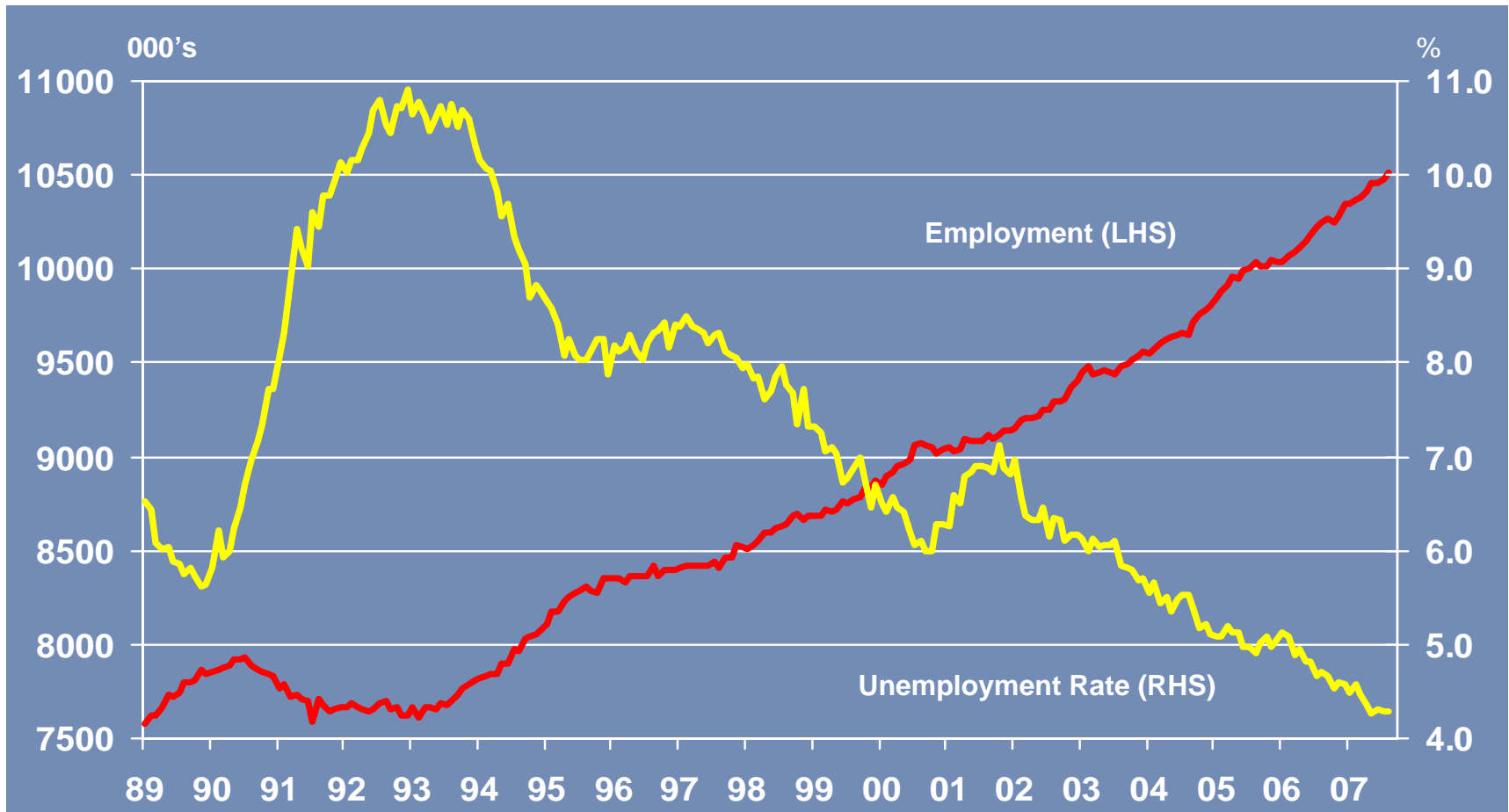
Source: Consensus Economics

Real GDP growth in Australia and the US



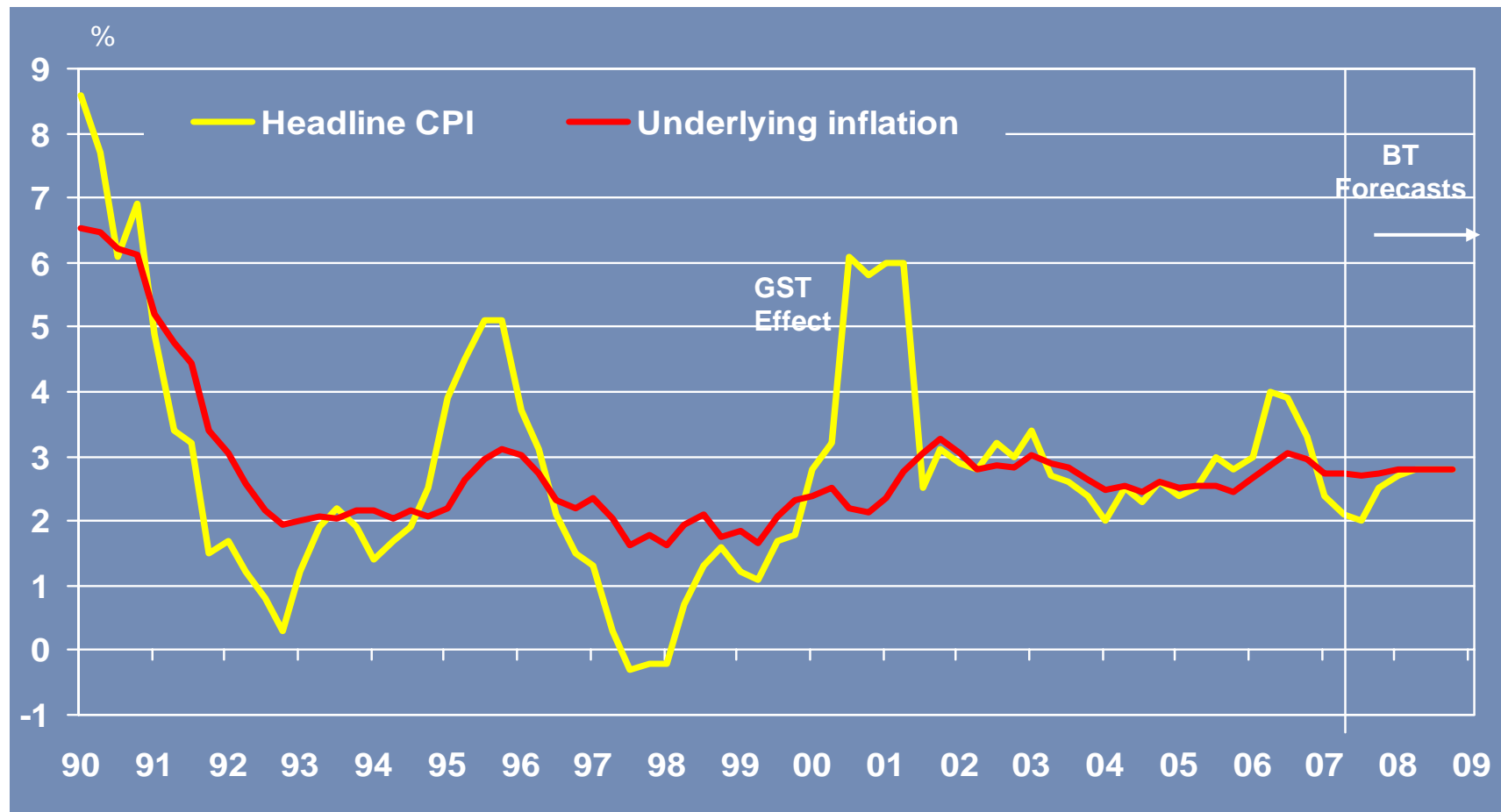
Source: Datastream

The Labour market



Source: ABS

Australian Inflation

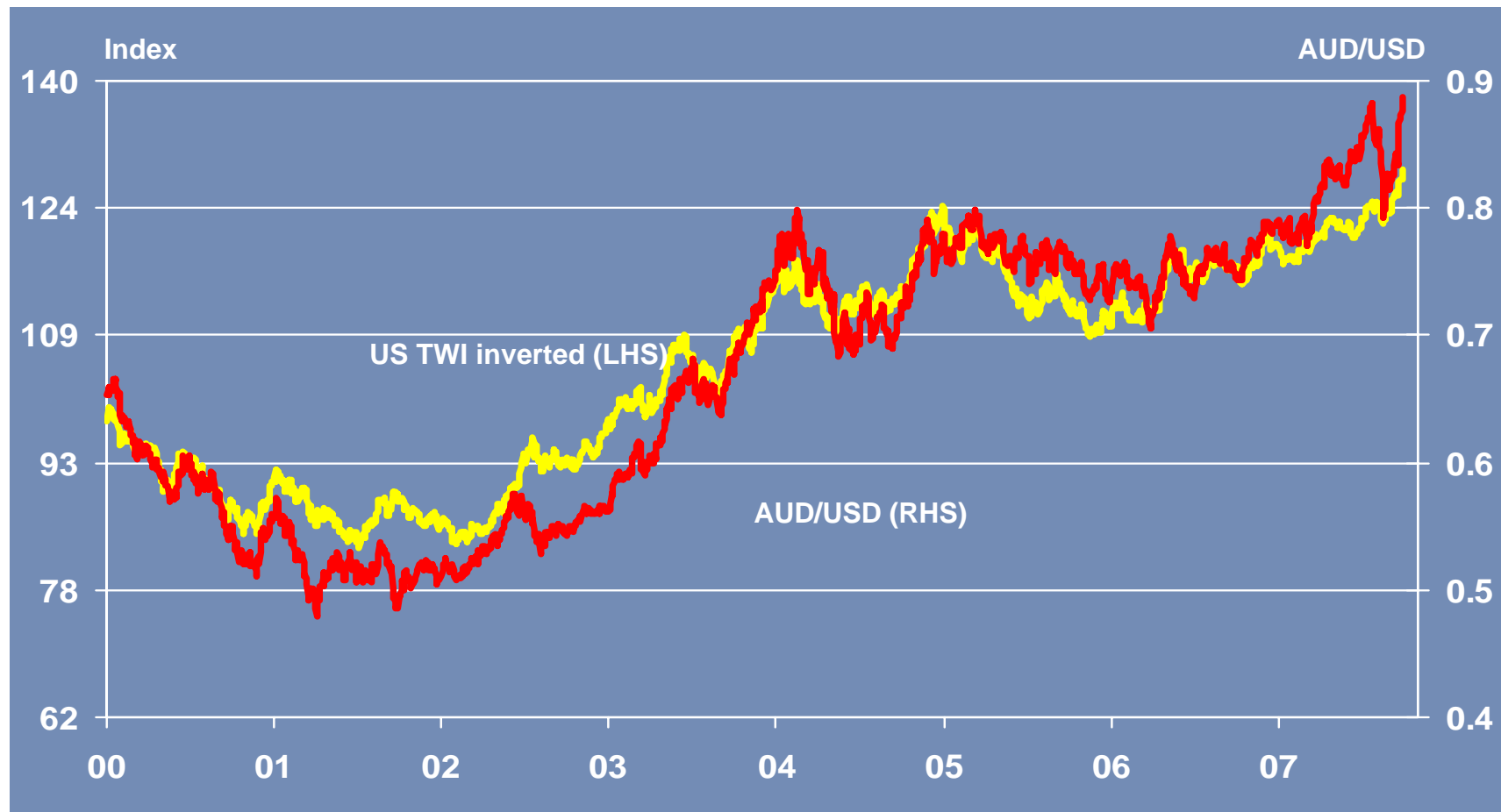


Source: ABS

Financial Market Forecasts

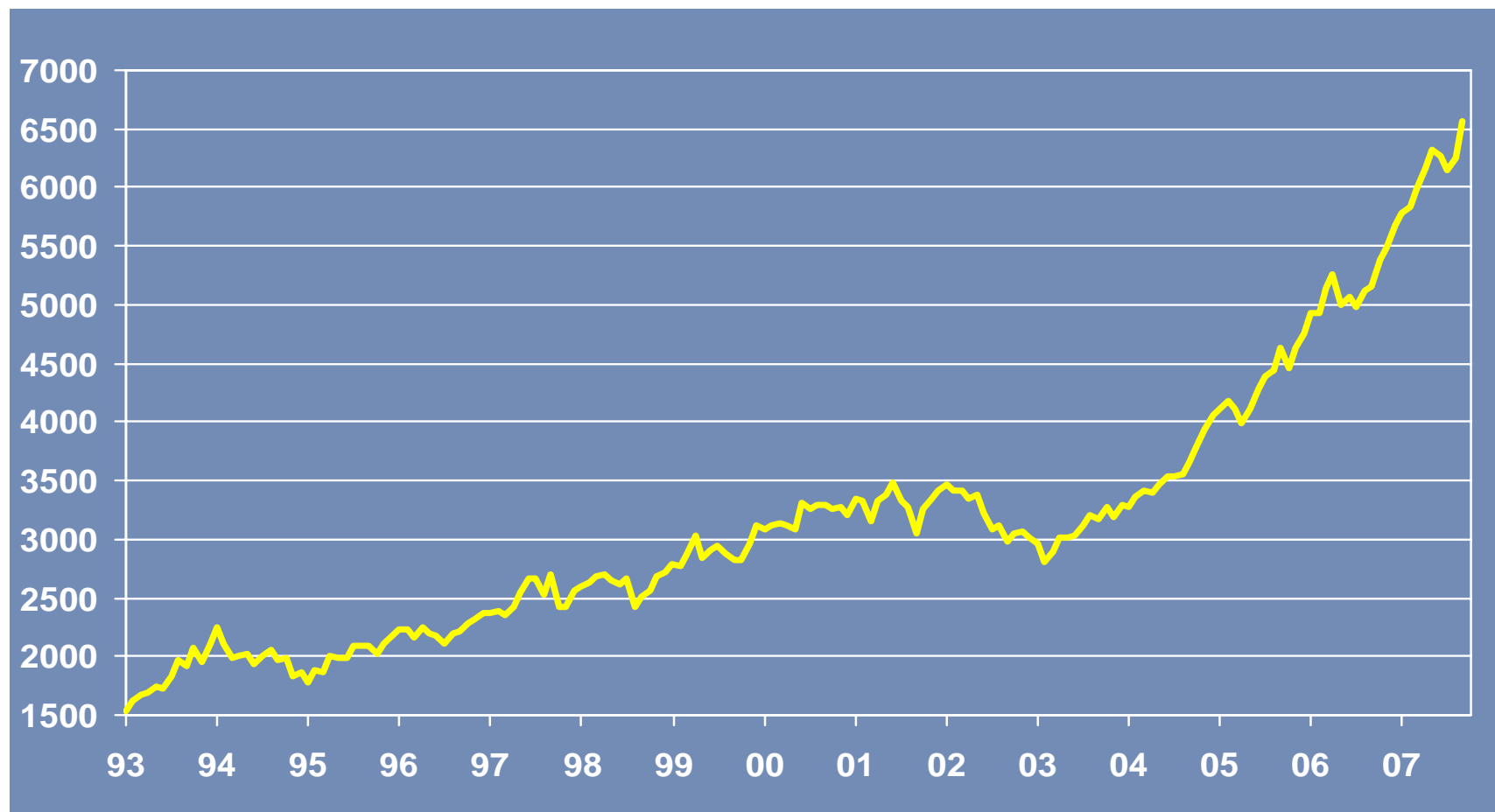
	Now (9 Oct)	End-Dec 2007	End-June 2008
AUD/USD	0.89	0.85	0.82
Official cash rate (%)	6.50	6.50	6.50
10 Year Bond yield (%)	6.23	6.25	6.25
ASX 200	6650	6500	6750

The Australian Dollar and US Trade Weighted Index



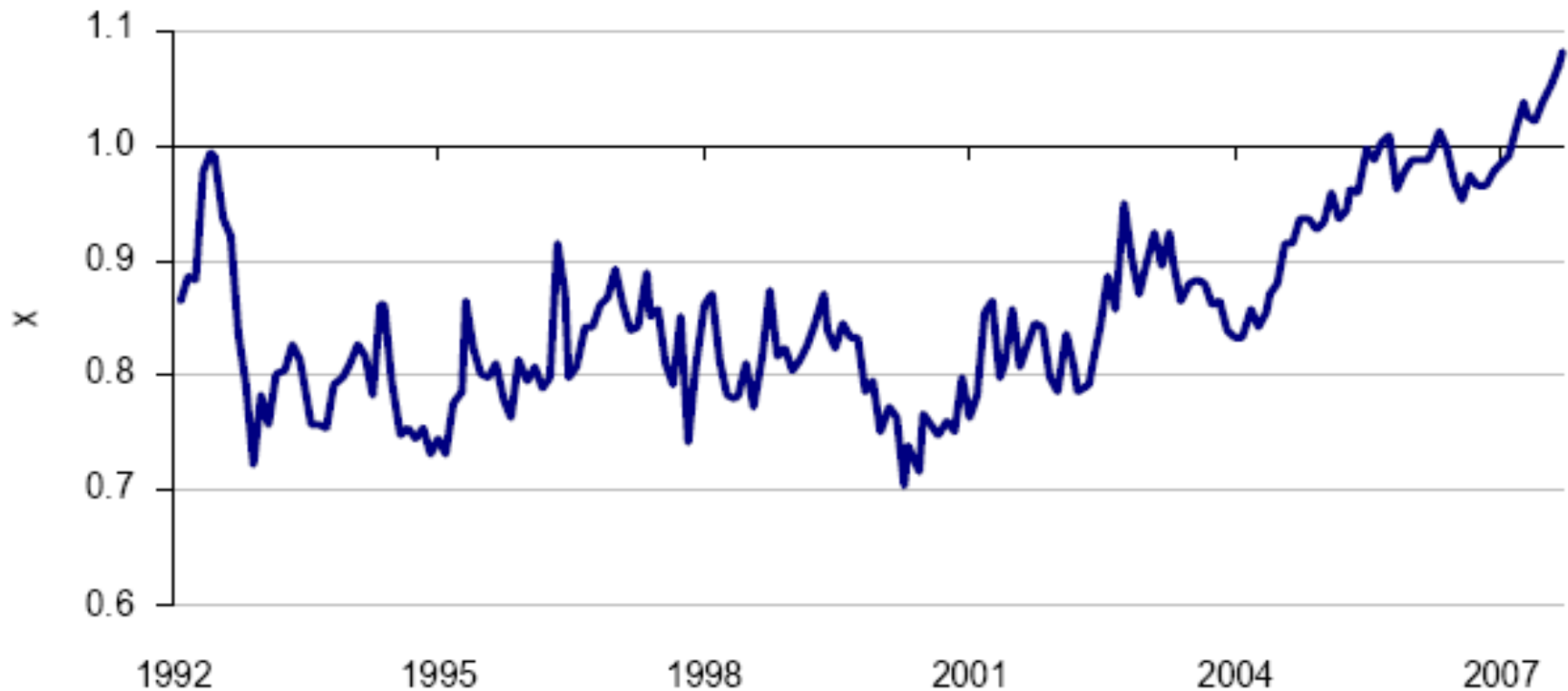
Source: Datastream

Australian Sharemarket Performance – ASX200



Source: Bloomberg

P/E of Australian market relative to World



Source: I/B/E/S, UBS calculations

Summary

- The shifting demographic composition of Australia will present a number of challenges.
- Australia is relatively well placed to cope.
- The implications for health care are enormous.
- The Australian economy continues to do quite well.
- Interest rates will probably stay right where they are.
- The share market is in for a long slog.
- The exchange rate is anybody's guess.

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