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‘Vision and Courage’

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Good afternoon and thank you Ticky for such a kind introduction.

The Right Honourable Lord Mayor of Sydney, Clover Moore who spoke so well earlier,

Distinguished guests,

Ladies and gentlemen,

It gives me real pleasure to be here, and to celebrate the New Year with you - the year of the Monkey.

Now, you may have noticed that I sound Canadian - and it's true, I am.

But I have called Australia home for 10 years.

And to be able to help you celebrate Chinese New Year right here in Sydney is a real honour for me.

Thank you to the city of Sydney, and to the Lord Mayor for the invitation.

I would like to use the occasion to say some things that I think are important about the New Year, and I hope you will find my comments worthwhile.

Those who know me know that I enjoy history, so let me begin in the 18th century, when Voltaire had this to say about China:

‘Their empire is, in truth, the best that the world has ever seen.’

But over the next two centuries, China missed the industrial revolution, and the wealth creation that swept across the industrial world. So Voltaire had to wait.

But over the past 20 years, China has had its own Industrial Revolution - and has now returned as an economic and cultural superpower.

So what does all of this have to do with the year of the Monkey? I think quite a lot.

Now 2016 - by most media accounts - has started out quite badly.

In fact, if you were reading the financial news over the holidays, you would have reason for serious depression...

- China's GDP growth has fallen to under 7% - the lowest since the 1980's.
- Commodity prices have fallen, with oil prices down 20% this year already, after falling 30% last year.
- Share markets have tumbled. Both the US and Australian markets are down by around 10% this year.
- And China's two main indices are well down.
- Europe is dealing with the greatest refugee crisis since World War 2.
- And George Soros has even predicted another financial crisis.

So a lot of bad news – China down – commodity prices down – global share markets down – Europe in human crisis.

So, how will we see THIS year unfold? My message to you today is twofold:

1) Firstly, it isn't nearly as bad as the headlines might have you believe.

2) My second message is this - and I think this point is important - 2016, like the 20 years before, will be a year where business leaders with vision and courage will make their mark on the world - if they choose to. Nothing of the bad news is nearly bad enough that it should be allowed to stop our course.

Let's return to our shared history:

- In 1996, China's economy was twice the size of Australia's.
- Today, China's economy is more than seven times bigger than Australia's.
- China is now the world's top exporter.
- China is, today, Australia's largest trading partner.
- 100 other countries say the same.
- Most importantly, 500 million Chinese have shifted or been born out of poverty in the past 20 years – the truest possible test of economic progress.

China is now funding the most important battles against our most common and persistent enemies:

- prosperity over poverty
- health over disease
- education over ignorance.

This is what becomes possible when great economies thrive.

I know that there are many in the room tonight who, though you live in Australia, once called China home - and many here who still do.

I imagine that you rightly feel proud of the progress China has made - I am quite certain that you feel lucky for it.

China is back to where Voltaire left it – as a great global power.

Over the last 20 years, Australia has become a global leader as well.

- Our economy has doubled.
- Incomes increased by 50 per cent.
- Australians are richer than they have ever been and enjoy the second - highest disposable income in the world.
- We have a seat at the G20.
- Australia has 15 Nobel Prize Laureates, highest per capita in the world.
- Australia has created great innovations - Wi-Fi - Google Maps - Cochlear ear implants - all created right here.
- And most importantly. We can truly say that in no other country will an average young person grow up to have more opportunities to do great things - with her life - than right here in Australia.

I know that every one of us here tonight who calls Australia our home – myself included - feels very lucky for what has happened right here – and we should.

What do we think has caused all of this prosperity? I am actually a bit Romantic on this topic, so please excuse me – and I might also be biased - but I think we owe a great deal of this prosperity to Businesses.

Great and beautiful businesses. Not just businesses that have achieved success - though success has been achieved - But businesses whose success has been shared. Shared with customers, shared with employees, shared with the communities that have themselves nurtured these businesses. Businesses that have been started, transformed, and grown over the years.

Why do we have these great businesses? – In large part, because we have had Great Business Leaders. Business leaders with the Vision and Courage to move us forward.

I am not singling out captains of industry for praise - but I include business leaders of different types and sizes:

- Business leaders with the vision and courage to start a business, with nothing but a good idea.
- Or found a start-up right here in Surry hills.

Not because they want to sell it. But because they want to create something that didn't exist before.

Or to take an existing business, and start exporting to China for the first time - even though it brings enormous risks.

Or to invest in the latest technology for their business, because the investment is worth it, and their time horizon is long.

And business leaders who know that the time is right, to pass a business of a lifetime on to the next generation - because they are ready.

The heroes of the last 20 years have truly been business leaders - large and small - with vision and courage.

So what about all the bad news we have been reading about?

Firstly, China. Let's start by putting the slowdown into proper perspective.

- In 1996 GDP growth was 17% - far higher than today.
- But in dollar terms growth was 5 times higher in 2015. The pie is much, much bigger – and so is the actual growth.
- But China does have its problems today:
 - China has excess capacity in manufacturing and construction
 - And Beijing will have support these sectors to ensure that they land softly.
- Around the world, trust in Beijing's ability to handle their changing economy has been hurt in recent times.

But we think that mistrust is overblown, and we do trust they will do the right things for their economy's health.

In short, we think that Beijing has more than enough fire power to stimulate the economy this year - and we expect that they will - and we expect it to smooth the adjustment process.

- China's economy is changing. It is moving from a manufacturing and construction led economy - to a services and consumer led economy.
- The most interesting data out of China this year - manufacturing and construction grew at 2% - services grew at 12%
- Services will continue to dominate, and growth will slow – we think closer to 5% than 10% into the future.
- Yes, China is beginning to look a little bit more like the still mighty U.S. economy
- Success for China was always going to look like this – and make no mistake – we are still witnessing success.

But what about those commodity prices?

As I said, 2015 was a terrible year for commodity prices.

Let's focus on Oil. Because concerns over oil prices – along with concerns over China - are probably the biggest themes of the global economy this year.

- In 2008, oil was \$140 a barrel.
- In January, it went under \$27 a barrel.
- Oil has fallen by 8 percent last week.
- This fall has been largely driven by an excess in production – last year, the world was placing 1.8 million barrels of oil a day into storage.
- We also have to recognize that Iran will re-enter the global market - and we should expect Saudi Arabia to compete aggressively in Iran's markets.
- But with prices at these levels, a huge percentage of the world's production is currently sub-economic - we expect supply to reduce and stabilise prices - but it will take time.
- We are already seeing high cost iron ore producers leave the market. This has stabilised iron ore prices over the last few months.
- We are expecting similar supply adjustments for oil – but it's going to take longer – There is a huge amount of global reserve to work through – and sovereign wealth funds will support sub-economic production for longer.
- But - we think commodity prices are generally around the bottom - and there is upside for the future.

Now how worried should we be about global share markets?

We don't believe that the fall in equity markets is likely to signal a global crisis.

To be sure. There are real issue effecting valuations - particularly in the U.S.,

- where oil related businesses are being squeezed,
- and the high U.S. dollar is hurting exports and manufacturing.

But these are known issues - And fear has probably overtaken rationality.

Most of the fundamentals of the market remain sound, and we don't think there is need for panic:

Stability in Oil Prices.

A more stable outlook for China.

And evidence that the fed will scale back rate rises .

These should all quiet the fear over the coming months.

And if you remain worried about China's stock markets. Remember, the Chinese stock market is only 40% of GDP, compared with about 90% + in Australia and the US – it is not a fair measure of economic performance.

Let's turn to the still mighty US economy - how do they look to us?

- There are some issues in the US economy, but there are more ups than downs
- Profits are slowing in the US, but this is mainly due to:
- The collapse in the oil price and;
- The strong U.S. dollar.

It is critical to know that Oil is more important as an industry in the U.S. than it has been in the past - so low oil prices are a material headwind to profits.

At an underlying level though, the U.S. economy is in good shape with full employment; solid GDP growth of 2.5% in 2015; a strong housing market and record vehicle sales.

But we are all still waiting on the US consumer – remember, 70% of the U.S. economy is consumption.

Oil prices - while harmful to industry profits - are equivalent to a tax cut for US consumers, and consumers have always used it to spend.

Once we see that happen, we will see more upside in U.S. growth.

The only material worry for the US economy is another Credit Squeeze. And credit spreads have increased,

But most other measures of credit availability do not signal a problem.

More expensive credit does not, in and of itself, suggest a looming liquidity crisis.

Finally, let's turn to the outlook right here in Australia – we think things generally look as good as can be expected for a commodities-heavy economy at this time in the cycle.

In fact, we believe that growth in Australia will probably continue at similar levels for the year

This will be driven by improved business sentiment, following the change of government.

Driven by solid demand in health, education, construction, and tourism.

Driven by strong export opportunities for services, supported by the low Australian dollar

Driven by continued Chinese growth.

On interest rates – we still expect them to be flat this year, with the first move up likely next year.

While sooner reduction is possible - We still think that is the less likely outcome.

And the Australian dollar? The Fed will not raise rates as quickly as we may have thought,

But our view is that we will still see upward movement in U.S. Rates - which should keep the AUD roughly flat - and maybe lower in the middle of the year as the U.S. does continue with rate rises.

So, with all of that said, how can Australia work better with China? The answer? Services.

China is moving to services, and its consumers are growing in capability - it's time to turn our attention to serving them. In Australia, our services sector accounts for 70% of our economy but only 20% of our exports.

It's in our national interest to start exporting more services.

I am talking about E-commerce, Healthcare, Education, Professional Services, Tourism, Hospitality and Agriculture – yes, Agri as a service. Let me explain:

- The most productive agricultural industry in the world is in Australia.
- The country with the greatest need to feed a growing population in the world is China.
- China has the financial capital – but Australia has the lead on human capital in the form of expertise.
- Agri as a service to feed a growing china – it's a marriage made in economic heaven.

The point I am making is this: our greatest natural asset is not farmland to sell. Nor is it mineral-rich land into which we dig. But it is the people who walk on top of the land all across Australia – and also the people in this room - and it is in supporting and selling this asset that our future prosperity lies.

Let me now turn my attention to Westpac, and the trends we see in our own data. We serve a wide range of businesses. From multinationals to family businesses to start-ups to sole traders – in fact 50% of the country's businesses have a banking relationship with the Westpac Group., which includes Westpac, St. George, Bank of South Australia, Rams, BT, and Bank of Melbourne. This gives us incredible data that we get to see in real time. This is what it is telling us right now:

Firstly, that our customers have strong and safe balance sheets. Strongest in years.

Secondly, we can actually see improved confidence – this is reflected in growth in our business lending book – stronger in the quarter than we have seen for some time.

Thirdly, the stress levels in our book are at historic lows – this means our customers are able to meet their commitments better than ever before.

Finally, we speak to thousands of our customers every day. The mood – cautious with investment, but strong, safe, and ready to grow. I will put it this way - The businesses we serve have invested more of late than they have in recent memory. The businesses that we serve are sitting on strong balance sheets and this will allow them to take advantage of the big opportunities - when they arrive.

Let me end with my core message to you today. The situation in the local and global economies is not nearly as dire as you have read.

The important thing to remember is this.

Australia and China have a shared history of growth and prosperity.

Prosperity that has come from business leaders starting, transforming and growing businesses.

Business leaders with Vision and with courage.

We see nothing in the year of the monkey that should change that.

We have had in the past and will have in the future bad days in the markets. Those days have not stopped us.

We have had and will have:

- days of negative news.
- of price falls.
- of economic uncertainty.

None of those days have stopped us yet.

That's why vision has never been enough. We have always needed vision to be matched with courage.

So, whether you sit here today as an owner of a business. Or leading a 'business within a business'. Or someone who simply has a good idea – in the year of the monkey nothing should stop you from showing the vision and the courage that have brought us all to this point.

Thank you – Happy New Year - Good luck.