

A year's a long time in economics: The  
changing outlook for the Australian, WA and  
World economies

**Paul Flatau**  
**ETWA May 2010**

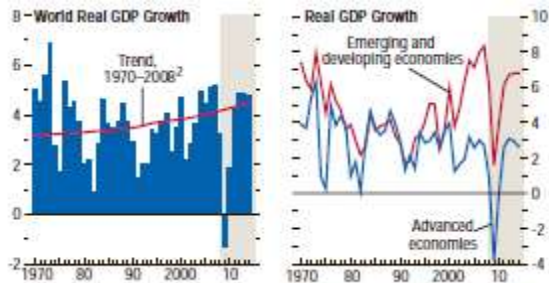
# One year ago..... Australia

---

- ▶ **Australian Government 2009-2010 Budget 2009-2010 forecasts**
  - ▶ Real GDP: negative growth (-1/2) but rebound 2010-2011 (2¼)
  - ▶ Sharp decline in Business Investment (-18 ½)
  - ▶ Sharp rise in public final demand (7 ¾)
  - ▶ Fall in employment and a rise in the unemployment rate (8 ¼) and fall in the LFP – but unemployment not to rise again in 2010-2011 (8 ½)

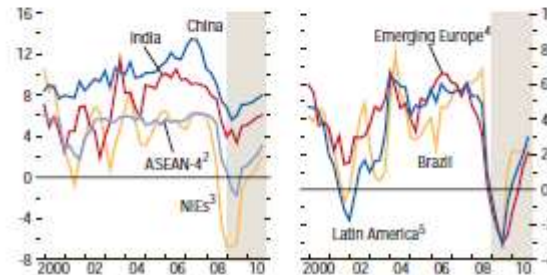
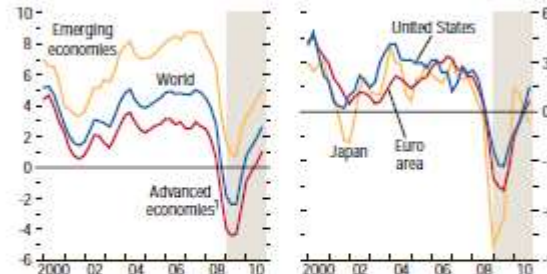
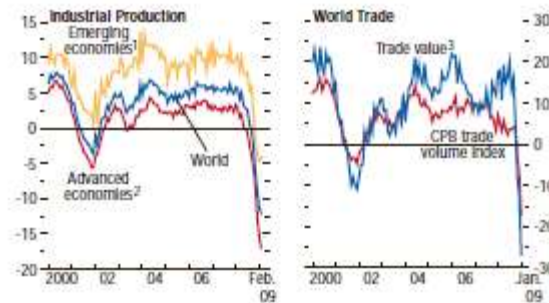


# One year ago..... The World (IMF) World Economic Outlook 2009



**Figure 1.8. Global Outlook**  
(Real GDP; percent change from a year earlier)

The global economy is projected to undergo a deep and prolonged recession in 2009 with growth only returning at a gradual pace in 2010 based on strong policy actions. A wide range of advanced and emerging economies are projected to suffer substantial contractions in economic activity in 2009.



# One year ago .....WA

---

- ▶ **WA Government 2009-2010 Budget 2009-2010 forecasts**
  - ▶ Real Gross State Product growth: negative growth (- 1.25) and no rebound till 2011-2012
  - ▶ Fall in employment and a rise in the unemployment rate (5.75)
  - ▶ More sanguine than the Australian Government about the Australian economy



# The tide turns mid year .....

---

- ▶ **Australian Government Mid-Year Economic and Fiscal Outlook (for 2009-2010)**
    - ▶ GDP growth revised from  $-1/2$  to  $1 1/2$
    - ▶ Business investment from  $-18 1/2$  to  $-6 1/2$
    - ▶ Unemployment down from  $8 1/4$  to  $6 3/4$  : employment and LFP up
  - ▶ **WA Government Mid-Year Financial Projections Statement (for 2009-2010)**
    - ▶ Real Gross State Product growth: revised from negative growth (-1.25) to smaller negative growth (-0.5) and rebound in 2010-2011 (2.75)
    - ▶ Minor downward revision to unemployment rate
    - ▶ Still more sanguine than the Australian Government on the Australian economy
- 



# Latest data.....

---

## ▶ Australia

- ▶ Real GDP quarter on quarter trend
  - ▶ Sept 2009-2010 0.7%
  - ▶ Dec 2009-2010 0.6%
- ▶ Private Investment
  - ▶ Sept 2009-2010 -0.3%
  - ▶ Dec 2009-2010 3.5%
- ▶ Unemployment (March 2010) 5.3%

## ▶ WA

- ▶ State Final Demand
    - ▶ Sept 2009-2010 -0.6%
    - ▶ Dec 2009-2010 2.6%
  - ▶ Unemployment (March 2010) 5.0%
- 



# Some views on the outlook .....

---

- ▶ David Gruen, Executive Director, Macroeconomic Group, The Treasury , Address to the American Chamber of Commerce 19 February 2010
- ▶ As you know, the Australian economy has performed better than anybody expected through the global downturn, growing by 1.2 per cent in the 2008-09 financial year. The labour market has also shown remarkable resilience, with the unemployment rate falling in the months of November, December and January, after hovering around 5¾ per cent since early 2009. Last month's unemployment rate of 5.3 per cent is lower than any major advanced economy, with the exception of Japan.
- ▶ The Australian economy's resilience during this episode reflects, among other things, large and timely fiscal and monetary policy responses; solid demand from some of our major trading partners, particularly China; strong population growth helping to support demand in the domestic economy; and the underlying strength and robustness of our financial sector.
- ▶ These factors together have inspired confidence locally, with measures of consumer and business confidence rebounding strongly.
- ▶ More generally, the Australian economy's resilience owes much to decades of economic reform – in economic policy, regulatory frameworks and governance. These have increased the flexibility of the economy, and strengthened its ability to withstand shocks.



# Some views on the outlook .....

---

- ▶ **Glenn Stevens Address to the Regional Business Leaders Forum, University of Southern Queensland and Toowoomba Chamber of Commerce and Industry**  
Toowoomba - 23 April 2010
  - ▶ While several major countries have had one of their most, if not their most, serious recessions in the post-War period, Australia had arguably one of its mildest. We had a relatively sharp but very brief downturn in aggregate demand and economic activity late in 2008, and then returned to a path of expansion during the first half of 2009. As most recently estimated by the ABS, real GDP grew by  $2\frac{3}{4}$  per cent through last year – a bit below average, but much higher than for most other high-income economies. **This was supported by monetary and fiscal stimulus, the recovery in Asia, and a sound financial system. The sorts of things that typically accompany downturns – such as higher unemployment, increased loan losses for intermediaries, a fall in asset values – did happen to some extent. But because the downturn was brief, these deteriorations were rather mild, which meant that they did not then become part of a major feedback loop back to aggregate demand and output. That in turn meant that the economy was able to get onto the recovery path more quickly. And so on.**
  - ▶ As a result, the rate of unemployment, at about  $5\frac{1}{4}$  per cent, is more than 2 percentage points lower than we forecast a year ago. The level of employment is  $3\frac{1}{2}$  per cent, or some 350,000 jobs, higher than we expected a year ago. GDP growth of  $2\frac{3}{4}$  per cent through 2009 compares with our forecast a year ago of -1 per cent. That is, the level of real GDP today is nearly 4 per cent higher than had been anticipated. For 2009 as a whole, we estimate that nominal GDP was about \$45 billion higher than our forecast a year ago.
  - ▶ Australia has survived what some have labelled ‘the great recession’ in the global economy. So, as it turns out, have a number of countries that are of importance to us in our region. The common ingredient seems to have been reasonably healthy financial systems accompanied by liberal doses of policy stimulus.
  - ▶ Our task, and theirs, is now to manage a new economic upswing. This will be just as challenging, in its own way, as managing the downturn. But it’s a challenge plenty of other countries would like to have.
- 





# Some views on the outlook .....

---

## ▶ **Statement by Glenn Stevens, Governor: Monetary Policy Decision 4 May 2010**

- ▶ At its meeting today, the Board decided to raise the cash rate by 25 basis points to 4.5 per cent, effective 5 May 2010.
- ▶ Recently, forecasts for world GDP growth have been revised up again, and growth is expected to be at trend pace or a little above in 2010. ....
- ▶ Australia's terms of trade are rising by more than earlier expected, and this year will probably regain the peak seen in 2008. This will add to incomes and foster a build-up in investment in the resources sector. Under these conditions, output growth over the year ahead is likely to exceed that seen last year, even though the effects of earlier expansionary policy measures will be diminishing. The process of business sector deleveraging is moderating, with business credit stabilising and indications that lenders are starting to become more willing to lend to some borrowers, though credit conditions for some sectors remain difficult. Credit outstanding for housing has been expanding at a solid pace. New loan approvals for housing have moderated over recent months as interest rates have risen and the impact of large grants to first-home buyers has tailed off. Nonetheless, at this point the market for established dwellings is still characterised by considerable buoyancy, with prices continuing to increase over recent months.
- ▶ Recent data on inflation confirm that it has declined from its peak in 2008, helped by a noticeable slowing in private-sector labour costs during 2009, the rise in the exchange rate and the earlier period of slower growth in demand. In both underlying and CPI terms, inflation over the most recent 12 months was around 3 per cent. **Nonetheless, the extent of decline from here may not be quite as much as earlier forecast and inflation now appears likely to be in the upper half of the target zone over the coming year.**
- ▶ **With the risk of serious economic contraction in Australia having passed some time ago, the Board has been adjusting the cash rate towards levels that would be consistent with interest rates to borrowers being close to the average experience over the past decade or more. The Board expects that, as a result of today's decision, rates for most borrowers will be around average levels. This represents a significant adjustment from the very expansionary settings reached a year ago.**



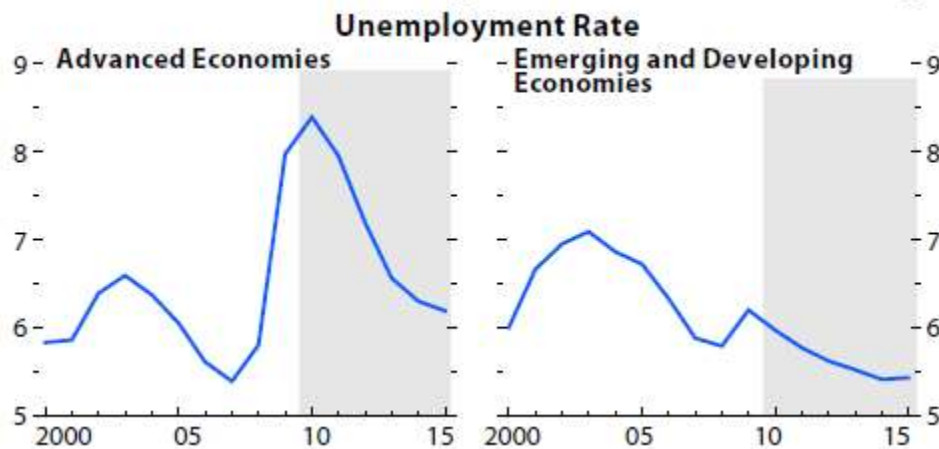
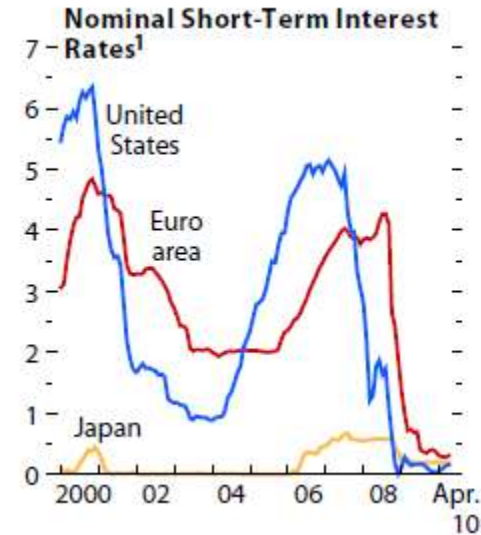
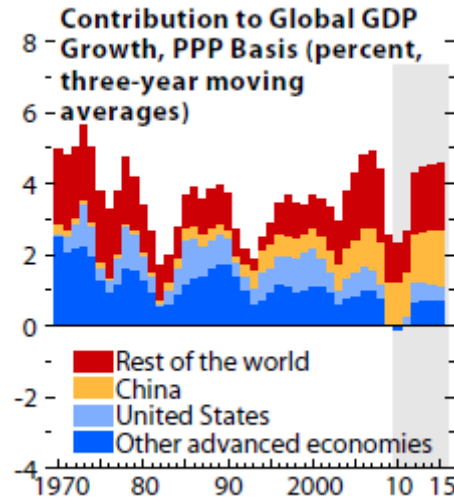
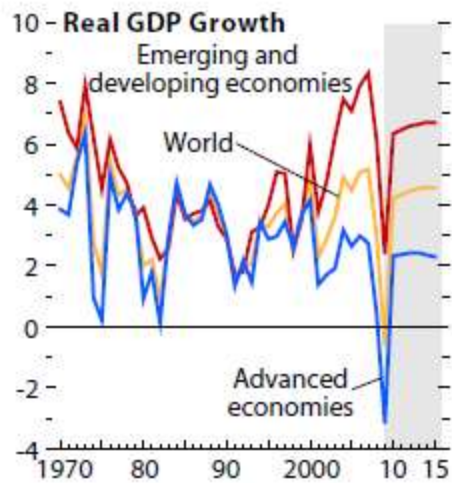
# IMF World Economic Outlook 2010 (April 2010)

---

- ▶ *In 2010, world output is expected to rise by about 4¼ percent, following a ½ percent contraction in 2009.*
  - ▶ *Economies that are off to a strong start are likely to remain in the lead, as growth in others is held back by lasting damage to financial sectors and household balance sheets.*
  - ▶ *Activity remains dependent on highly accommodative macroeconomic policies and is subject to downside risks, as fiscal fragilities have come to the fore. In most advanced economies, fiscal and monetary policies should maintain a supportive thrust in 2010 to sustain growth and employment. But many of these economies also need to urgently adopt credible medium term strategies to contain public debt and later bring it down to more prudent levels. Financial sector repair and reform are additional high-priority requirements.*
- 



# IMF World Economic Outlook 2010 (April 2010)





# Appendix

# 2009-2010 Australian Budget Forecasts

Statement 2: Economic Outlook

**Table 1: Domestic economy forecasts<sup>(a)</sup>**

	Outcomes(b)	Estimates	Forecasts	
	2007-08	2008-09	2009-10	2010-11
<b>Panel A - Demand and output(c)</b>				
Household consumption	3.7	1	- 1/4	1 3/4
Private investment				
Dwellings	1.6	-2 1/2	0	11 1/2
Total business investment(d)	14.2	2 1/2	-18 1/2	3 1/2
Non-dwelling construction(d)	11.4	1/2	-26	3
Machinery and equipment(d)	16.0	3	-16 1/2	4
Private final demand(d)	5.5	1/2	-4	2 3/4
Public final demand(d)	4.6	5	7 3/4	- 1/2
Total final demand	5.3	1 1/2	-1 1/4	2
Change in inventories(e)	0.2	-1 1/2	1/4	3/4
Gross national expenditure	5.5	1/4	-1 1/4	2 1/2
Exports of goods and services	4.3	- 1/2	-4	4 1/2
Imports of goods and services	12.9	-1 1/2	-6 1/2	6 1/2
Net exports(e)	-1.9	1/4	3/4	- 1/2
Gross domestic product	3.6	0	- 1/2	2 1/4
Non-farm product	3.6	- 1/4	- 1/2	2 1/4
Farm product	4.5	13	1	0
Nominal gross domestic product	8.2	5 3/4	-1 1/2	3 3/4

# 2009-2010 Australian Budget Forecasts

---

## Panel B - Other selected economic measures

External accounts				
Terms of trade	5.2	8 3/4	-13 1/4	0
Current account balance (per cent of GDP)	-6.2	-3	-5 1/4	-5 3/4
Labour market				
Employment (labour force survey basis)(f)	2.4	- 1/4	-1 1/2	1/2
Unemployment rate (per cent)(g)	4.2	6	8 1/4	8 1/2
Participation rate (per cent)(g)	65.5	65 1/4	64 3/4	64 1/4
Prices and wages				
Consumer Price Index(f)	4.5	1 3/4	1 3/4	1 1/2
Gross non-farm product deflator	4.3	5 3/4	-1	1 1/2
Wage Price Index(f)	4.1	4 1/4	3 1/4	3 1/4



# 2009-10 WA Budget Forecasts

---

Key Economic Forecasts for Western Australia

	2007-08 Actual	2008-09 Estimated Actual	2009-10 Budget Estimate	2010-11 Forward Estimate	2011-12 Forward Estimate	2012-13 Forward Estimate
	%	%	%	%	%	%
Real Gross State Product Growth	5.2	8.0	-1.25	-0.5	3.75	3.75
Real State Final Demand Growth	9.3	8.25	-3.5	-3.75	4.75	4.5
Employment Growth	3.6	3.25	-2.0	-	2.0	2.5
Unemployment Rate	3.3	3.25	5.75	6.75	6.0	5.25
Wage Price Index Growth	5.8	4.5	3.0	2.75	3.25	4.0
Average Weekly Earnings Growth	9.8	2.5	1.5	2.75	3.75	4.0
Population Growth	2.6	3.1	2.4	1.8	1.8	1.8
Perth Consumer Price Index Growth	3.6	3.5	2.5	2.5	3.0	3.0



# Australian Government Mid-Year Economic and Fiscal Outlook

**Table 2.2: Domestic economy forecasts<sup>(a)</sup>**

	2008-09	2009-10		2010-11	
	Outcomes(b)	Forecasts		Budget	MYEFO
		Budget	MYEFO	Budget	MYEFO
<b>Panel A - Demand and output(c)</b>					
Household consumption	1.4	- 1/4	3/4	1 3/4	2 3/4
Private investment					
Dwellings	-1.9	0	1 1/2	11 1/2	12
Total business investment(d)	6.7	-18 1/2	-6 1/2	3 1/2	5 1/2
Non-dwelling construction(d)	7.5	-26	-9 1/2	3	5
Machinery and equipment(d)	5.2	-16 1/2	-6	4	7
Private final demand(d)	2.0	-4	- 3/4	2 3/4	4
Public final demand(d)	4.6	7 3/4	7 3/4	- 1/2	1/2
Total final demand	2.5	-1 1/4	1 1/4	2	3 1/4
Change in inventories(e)	-1.3	1/4	3/4	3/4	1/2
Gross national expenditure	1.3	-1 1/4	1 3/4	2 1/2	3 1/2
Exports of goods and services	1.8	-4	1 1/2	4 1/2	4 1/2
Imports of goods and services	-2.5	-6 1/2	2 1/2	6 1/2	8
Net exports(e)	1.0	3/4	- 1/4	- 1/2	- 3/4
Real gross domestic product	1.0	- 1/2	1 1/2	2 1/4	2 3/4
Non-farm product	0.7	- 1/2	1 1/2	2 1/4	2 3/4
Farm product	13.6	1	3	0	3
Nominal gross domestic product	6.1	-1 1/2	1 1/4	3 3/4	5 1/2



# Australian Government Mid-Year Economic and Fiscal Outlook

---

## Panel B - Other selected economic measures

### External accounts

Terms of trade	7.6	-13 1/4	-9 3/4	0	3 1/2
Current account balance (per cent of GDP)	-3.2	-5 1/4	-5 1/2	-5 3/4	-5 1/4

### Labour market

Employment (labour force survey basis)(f)	0.1	-1 1/2	1/4	1/2	1 1/2
Unemployment rate (per cent)(g)	5.7	8 1/4	6 3/4	8 1/2	6 1/2
Participation rate (per cent)(g)	65.4	64 3/4	65	64 1/4	65

### Prices and wages

Consumer Price Index (headline)(f)	1.5	1 3/4	2 1/4	1 1/2	2 1/4
Gross non-farm product deflator	5.4	-1	- 1/4	1 1/2	2 3/4
Wage Price Index(f)	3.8	3 1/4	3 1/4	3 1/4	3 1/2



# WA Mid-Year Financial Projections Statement

MAJOR ECONOMIC PARAMETERS  
Western Australia

Table 3

	2008-09 Actual	2009-10 Budget Estimate	2009-10 Mid-Year Revision	2010-11 Forward Estimate	2011-12 Forward Estimate	2012-13 Forward Estimate
Real Gross State Product Growth <sup>(a), (b)</sup>	3.25	-1.25	2.25	2.75	4.0	4.75
Real State Final Demand Growth <sup>(b)</sup>	5.2	-3.5	1.0	2.0	5.25	5.5
Employment Growth	3.2	-2.0	-0.75	1.5	2.25	2.5
Unemployment Rate	3.7	5.75	5.5	5.5	5.25	5.0
Wage Price Index Growth <sup>(c)</sup>	5.2	3.0	3.25	3.25	3.5	4.0
Average Weekly Earnings Growth <sup>(d)</sup>	5.9	1.5	4.25	3.5	3.75	4.5
Oil Price (\$US per barrel)	74.4	55.8	78.4 <sup>(e)</sup>	82.7	85.1	86.4
\$US/\$A (cents)	74.6	68.5	90.5 <sup>(e)</sup>	86.5	81.5	76.5
Population Growth <sup>(a)</sup>	3.0	2.4	2.4	2.1	2.0	2.0

(a) Estimated actual for 2008-09.

(b) Real Gross State Product (GSP) growth is estimated on the basis of production side data. State Final Demand (SFD) data are based on Australian National Accounts: National Income, Expenditure and Product, June 2009, released by the Australian Bureau of Statistics (ABS) on 2 September 2009 (ABS Catalogue Number 5206.0); all other data are based on other various ABS data sources.

(c) Unlike Average Weekly Earnings, the Wage Price Index abstracts from changes in the composition of the workforce and hence is a better measure of underlying wages growth.

(d) Estimated average for the remainder of 2009-10.

(e) Department of Treasury and Finance estimates.