Part II: Economic outlook

The Australian economy is forecast to grow by around 3 per cent in 2002-03, down from 3¾ per cent forecast at Budget. The downward revision to the forecast is largely due to the anticipated impact of the drought, which is now affecting large parts of Australia. Non-farm GDP growth is forecast to grow by 3¾ per cent in 2002-03, unchanged from Budget. Employment growth is expected to be moderate, with the unemployment rate gradually declining through the year.

The solid growth prospects for the Australian economy contrast sharply with the weak and uncertain outlook for the global economy. Although Australia's economy is likely to grow a little more slowly this year, the main domestic risks to Australia's economic outlook — the drought and the prospect of a downturn in the housing cycle — by themselves are unlikely to significantly derail the broader economy. The global economy remains fragile, however, and could weaken further. The possibility of a deterioration in global conditions, which would undermine Australia's exports and investment, together with a realisation of some of the domestic risks, while not the most likely outcome, provides a sobering backdrop to the domestic economic outlook.

Global economic conditions have remained subdued since Budget with continued economic weakness in the United States, Europe and Japan. The global economy is still expanding slowly, but the recovery has struggled to gather momentum, despite expansionary monetary and fiscal policies in most of the major economies. While the global recovery has not stalled, uncertainties around the outlook have heightened and risks are predominantly on the downside. Despite these uncertainties, the most likely outcome is that supportive policy settings will underpin a gradual, albeit weaker than previously expected, strengthening of global economic conditions over the next year. World growth is forecast to be 2¾ per cent in 2002, in line with the Budget forecast, while the world growth forecast for 2003 has been revised down to 3½ per cent, from 4 per cent at Budget.

Domestically, the major development since Budget has been the drought. The Budget outlook assumed average seasonal conditions in 2002-03, with farm production forecast to grow by 3¾ per cent in year-average terms. The drought is now expected to see total farm production decline by around 17 per cent in 2002-03, with much greater declines in grain production. Other parts of the economy are likely to be affected indirectly. Overall, the drought is expected to reduce GDP growth in 2002-03 by around ¾ of a percentage point, although a larger subtraction is possible if the dry conditions persist longer than currently assumed. The current account deficit is also likely to widen because of the drought and weak external demand, and the expected pick-up in business investment.

Despite the subdued global backdrop and the drought, the non-farm part of the economy is continuing to grow solidly, in line with the Budget outlook. Private business investment is picking up strongly and is expected to drive economic growth in 2002-03. The outlook for private consumption is unchanged from the Budget forecasts. The forecast for dwelling construction has been revised up since Budget, reflecting sustained high levels of activity, which have continued into the first half of 2002-03. Dwelling investment is now expected to grow by 9 per cent in 2002-03, compared with the 3 per cent decline forecast at Budget. Exports are expected to remain weak in line with the subdued global environment and the drought.

Inflation is expected to be moderate over the forecast period, underpinned by steady wage increases and solid productivity growth. Although the economy is expected to grow at a solid pace, wage and price pressures should remain contained. Subdued global conditions are likely to contain import price increases, moderating aggregate inflation. The Consumer Price Index (CPI) is expected to increase by around 2¾ per cent in 2002-03 in year-average terms, in line with Budget forecasts.

The labour market forecasts are unchanged from Budget, with employment growth forecast to be 1¾ per cent for 2002-03 and the unemployment rate around 6 per cent in the June quarter 2003. This is consistent with the outlook for solid non-farm GDP growth and moderate wages growth. There are some risks to the employment outlook, however, with rural employment already weak because of the drought and the possibility of a substantial downturn in residential construction activity over the coming year.

The initial forecast for 2003-04 is for GDP growth to increase to around 4 per cent, with the expected rebound largely due to the effects on growth of an assumed return to average seasonal conditions in the rural sector. Non-farm GDP growth is expected to be a little slower than in 2002-03. Strong business investment and solid household consumer spending underpin the outlook, although this should be partly offset by an expected slowdown in housing construction. The unemployment rate is expected to continue to trend downward, to a little below 6 per cent by the June quarter 2004.

Risks to the outlook

Since Budget, uncertainties surrounding the international and domestic outlook have increased. Global economic conditions are subdued and uneven and, while the central forecast for world growth has been lowered only a little since Budget, the downside risks are large and dominate the global picture. In particular, global equity markets have fallen sharply, further reducing wealth and confidence, while oil prices have risen and remain at high levels despite recent falls. Global and regional geo-political tensions have heightened. Feedback of these uncertainties into real activity has to date been relatively limited but recent partial data, particularly in the United States, are a cause for concern.

While the Australian economy has so far been able to shrug off much of the global weakness, a further global deterioration could eventually see domestic growth falter. Strong investment spending underpins the Australian growth outlook, but this is likely to be sensitive to global economic conditions and the level of uncertainty surrounding the outlook. Accordingly, the possibility of a weaker world environment is a substantial downside risk to the domestic outlook.

In addition to the global risks there are a number of domestic risks to the outlook, particularly uncertainties surrounding the drought and the housing sector. The drought is expected to subtract around ¾ of a percentage point from GDP growth in 2002-03, but a larger subtraction is possible if the dry conditions are worse than now assumed or if the indirect effects on other parts of the economy are larger than expected. It is also possible that the dry conditions could persist into 2003-04, possibly reducing forecast growth in that year.

There is also a possibility that housing activity may fall by more than forecast in 2003-04. Dwelling investment has held up for longer than expected at Budget, but substantial falls are in prospect over the forecast period as some of the bring-forward of construction is unwound. A related risk is that prices in some segments of the housing market, such as medium density dwellings, which are at historically high levels, could fall, with attendant wealth and confidence effects on spending.

A possible confluence of a further deterioration in global conditions, the drought and the expected downturn in housing activity would create difficult conditions for the economy. Unlike 1997-98, when the US was growing strongly, or 2001, when domestic activity was supported by a pick-up in housing activity and strong consumption, the Australian economy would find it difficult to maintain momentum in the face of any further significant global deterioration.

On the upside, the economy has proved to be very resilient, underpinned by solid fundamentals and supportive policy settings. Consumption has remained firm and investment intentions have held up well, despite the heightened global uncertainty. A near-term stabilisation in the external environment, particularly in international financial markets and in the level of geo-political tensions, could see the economy grow more strongly than currently forecast.

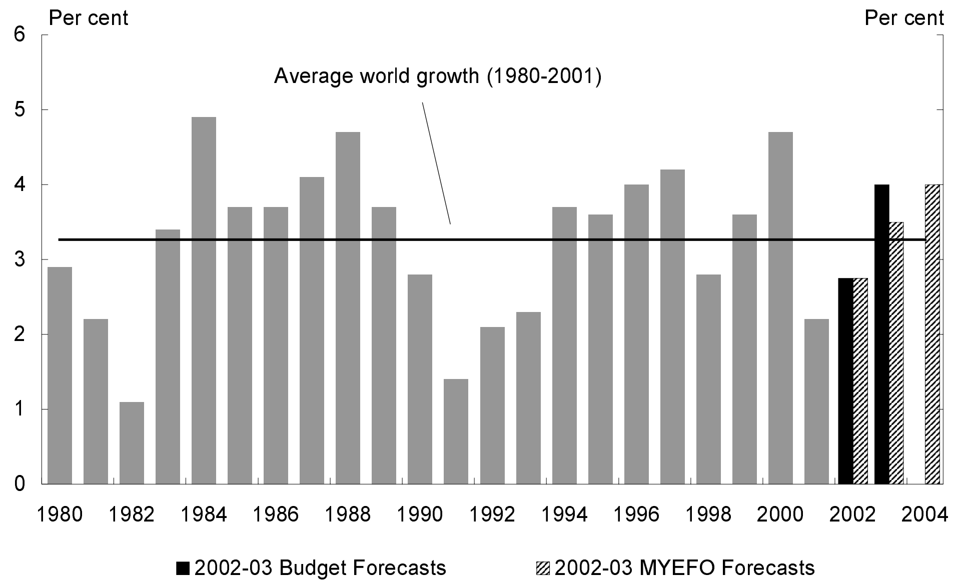
INTERNATIONAL ECONOMIC OUTLOOK

As anticipated at Budget, the world economy recovered in the first half of 2002 with most countries recording significantly improved growth. However, since Budget, risks to the international outlook have heightened and the recovery appears to have lost some momentum. While the world remains on track to achieve growth in 2002 consistent with the Budget forecasts, the outcome for 2003 will depend on how the risks unfold.

While the central case is for a slow recovery there is a preponderance of downside risks to the outlook. The possibility of sharply lower global equity prices, which would further reduce wealth and dampen consumer confidence, and push up the cost of capital for firms, represents a substantial risk to the outlook. Weaker investor confidence could also undermine investment. The United States (US) has had a large current account deficit in recent years and any loss of confidence in US assets could see a rapid and disorderly adjustment, with adverse consequences for global financial markets. Heightened international political tensions, and high oil prices, if sustained, are other major risks to the international outlook, as is possible contagion from the fragile situation in Latin America. Furthermore, shocks that have already occurred are still having an effect and their full impact may not yet be apparent.

World GDP growth is expected to be essentially unchanged from the Budget forecast of 2¾ per cent in 2002, although the composition of growth has changed, with weaker prospects for the US and Europe being offset by stronger than expected growth among East Asian economies. The world growth forecast in 2003 has been revised down by ½ of a percentage point from Budget to 3½ per cent, which is around trend growth (see Chart 2). Growth among Australia's major trading partners is expected to be 2¾ per cent in 2002, up ½ of a percentage point from Budget, and 3¼ per cent in 2003, down ½ of a percentage point from Budget (Table 2).

Chart 2: World GDP growth[(a)]



(a) World GDP growth rates are calculated using GDP weights based on purchasing power parity.
Source: National statistical publications, International Monetary Fund (IMF) and Treasury.

Table 2: International GDP growth forecasts(a)(b)

	2001 Actual	2002 Forecasts	2003 Forecasts
World	2.2	2 3/4	3 1/2
Total OECD(c)	0.7	1 1/2	2 1/4
United States	0.3	2 1/4	2 1/2
Japan	-0.3	- 1/4	1
European Union	1.6	1	2
Major Trading Partners	1.3	2 3/4	3 1/4
Non-Japan East Asia(d)	2.0	4 1/2	5

(a) Percentage change on previous year.
(b) Growth rates for the World and European Union are calculated using GDP weights based on purchasing power parity, while growth rates for Major Trading Partners and Non-Japan East Asia are calculated using export trade weights.
(c) Total OECD comprises the United States, Japan, Germany, France, Italy, the United Kingdom, Canada, Australia, Austria, Belgium, the Czech Republic, Denmark, Finland, Greece, Hungary, Iceland, Ireland, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Spain, Sweden, Switzerland, and Turkey.
(d) Non-Japan East Asia comprises Korea, Singapore, Taiwan, Hong Kong, China, Indonesia, Malaysia, Thailand, and the Philippines.
Source: National statistical publications, IMF and Treasury.

Despite stronger than expected global growth in early 2002, a sustained rebound in economic activity is proving elusive for many economies. The recovery lost momentum from mid-2002, as domestic demand did not pick-up as expected in the Euro area, making the region increasingly reliant on external demand. In Japan, private consumption showed some improvement but investment remained weak. While domestic demand has been stronger in non-Japan East Asia, this region is also heavily reliant on exports. Consequently, with limited progress on medium-term reforms in Europe and Japan, the global recovery remains highly dependent on future developments in the US.

The outlook for the **US** depends crucially on developments in the components of domestic demand. Household consumption has been very resilient, supported by low interest rates and wealth effects from rising house prices alleviating the negative wealth effects of lower equity prices. Nevertheless, consumption growth may slow and a pick-up in business investment is likely to be required to sustain the recovery. However, ongoing excess capacity in parts of US industry may constrain the scope for an investment rebound. As a result, the outlook for the US is for moderate but uneven growth, with a weaker recovery than previously expected. Growth is expected to remain below potential well into 2003.

In **Japan**, while GDP growth is expected to gradually improve, the outlook remains weak. After export growth picked up strongly in the first half of the year, it began to slow in line with a softening in the world economy and a higher yen. Falling employment, low levels of consumer confidence and ongoing deflation limit prospects for a sustained recovery in consumption, while financial and corporate sector balance sheet problems and weak profitability hinder a recovery in investment. Coming on the back of three recessions in the last 10 years, and with ongoing deflation, the level of nominal GDP in Japan in 2003 is expected to be essentially unchanged from that in 1995.

Non-Japan East Asia recovered strongly in the first half of 2002 as growth was supported by a strong pick-up in exports, a recovery in domestic demand and accommodative macroeconomic policies. While China and India have strong internally-generated growth, the outlook for the region more generally remains vulnerable to external developments, particularly slower growth in the US and in the demand for information and communications technology (ICT) equipment.

In the **European Union,** the pace of growth is likely to be weaker than previously expected and is likely to continue to lag that of other regions. Domestic demand remains sluggish under the weight of declining investment and subdued private consumption, leaving near-term prospects reliant on the strength of external demand.

The combination of poor short-term growth prospects in the US, Japan and the European Union underscores the fragility of the global economic environment.

Global inflation is expected to remain low for the remainder of 2002 and into 2003, allowing policies to remain accommodative, although high oil prices may raise inflationary pressures. Most advanced economies are experiencing low inflation, while deflation persists in a number of East Asian economies.

Downside risks to the international outlook have increased since Budget.

Global equity markets have fallen by over 40 per cent in many countries from their peak in early 2000, making this a very deep and protracted bear market. The bursting of the IT bubble, the unwinding of very high price-earnings ratios, weaker corporate profitability in the US, corporate accounting scandals, geo-political tensions and higher oil prices have driven the fall in equity prices. While equity market declines have reduced both business and consumer confidence, this has not yet translated into large-scale declines in consumption and business investment expenditure. If low equity prices are sustained, or were to fall further, this could result in a considerable weakening of consumption and investment expenditure and increase pressures on some parts of the financial sector.

Rapid rises in housing prices and increasing household debt in some developed countries pose another emerging threat to the outlook. The wealth effects of substantially weaker house prices could depress consumption even more severely than the fall in equity prices.

Oil prices have risen over the course of 2002 and remain at high levels despite recent falls, posing a significant risk to the global recovery. Tension in the Middle East and concerns about a potential conflict involving Iraq have heightened oil price risks. Significantly higher oil prices, if maintained for a considerable period of time, would reduce economic growth and increase inflation pressures.

Current account imbalances among the major economies appear to be unsustainable. The US current account deficit reached a record high in mid 2002. A loss of confidence leading to a sudden withdrawal of investment funds from the US could lead to a disorderly adjustment in financial markets. Should this occur, it would significantly affect global growth prospects.

Japan's chronic bad loans problem continues to worsen and the banking system is under severe strain from declining equity prices. Any major shock to the financial system in Japan would have wide global repercussions.

While the risks to the global outlook appear to be predominantly on the downside, and interconnected, this needs to be set against monetary and fiscal policies that have been eased substantially around the globe — this support for the global economy is reflected in the recovery in activity seen in recent quarters. A quick resolution or abatement of some of the major uncertainties currently facing the world could see the recovery quickly gather momentum.

DOMESTIC FORECASTS

The forecasts for the domestic economy are underpinned by several key technical assumptions. The exchange rate is assumed to remain around the average level of recent months (a trade weighted index (TWI) of around 50 and a $US exchange rate of around 54c). Interest rates are assumed to remain around current levels. World oil prices are assumed to average around $US26 per barrel over the remainder of 2002, before falling to around $US24 per barrel, broadly in line with market expectations.[1] The farm sector forecasts are based on an assumption of a return to average seasonal conditions in 2003-04.

Domestic economy — 2002-03

The key domestic macroeconomic forecasts for 2002-03 are summarised in Table 3. Economic growth in 2002-03 is expected to be around 3 per cent, revised down from 3¾ per cent at Budget. Non-farm GDP is forecast to grow by 3¾ per cent, unchanged from Budget.

1 World oil prices are measured by the world trade-weighted oil price, which is the average contract price of different types of oil, weighted by their share of world oil trade.

Private consumption is forecast to increase by around 4 per cent in 2002-03, consistent with the 2002-03 Budget and similar to the pace of growth in 2001-02. Moderate household disposable income growth, low interest rates and continued, albeit moderating growth in household wealth, are expected to support consumer spending.

There are a number of risks to the consumption outlook. The possibility of house prices plateauing, and more subdued wealth increases than in recent years, may slow consumption. The expected downturn in dwelling investment in the latter part of 2002-03 and lower farm incomes due to the drought are also likely to moderate consumer spending. Petrol prices have risen in 2002 and could act also as a drag on household spending.

Table 3: Domestic economy forecasts[(a)]

	Outcomes(b)	2002-03 Budget	2002-03 MYEFO
	2001-02	Forecasts	Forecasts
	Year average	Year average	Year average
Panel A - Demand and output(c)			
Household consumption	3.8	4	4
Private investment			
Dwellings	19.5	-3	9
Total business investment(d)	4.3	12	11
Other buildings and structures(d)	10.4	14	18
Machinery and equipment(d)	2.6	12	11
Intangible fixed assets	0.9	9	6
Private final demand(d)	5.3	4 3/4	5 1/4
Public final demand(d)	4.1	3 1/4	3 1/4
Total final demand	5.0	4 1/2	4 3/4
Change in inventories(e)			
Private non-farm	-0.1	1/4	1/4
Farm and public authorities(f)	0.1	0	- 1/4
Gross national expenditure	5.0	4 3/4	4 3/4
Exports of goods and services	-1.9	6	2
Imports of goods and services	2.3	11	10
Net exports(e)	-0.8	-1	-1 3/4
Gross domestic product	3.9	3 3/4	3
Non-farm product(g)	3.6	3 3/4	3 3/4
Farm product(g)	9.5	3 3/4	-17
Panel B - Other selected economic measures			
External accounts			
Terms of trade	2.6	2 3/4	2 1/4
Current account balance			
$billion	-22.2	-29	-33
Percentage of GDP	-3.2	-4	-4 1/2
Labour market			
Employment (labour force survey basis)	1.1	1 3/4	1 3/4
Unemployment rate (per cent)(h)	6.3	6	6
Participation rate (per cent)	63.7	63 3/4	63 3/4
Prices and wages			
Consumer Price Index	2.9	2 3/4	2 3/4
Gross non-farm product deflator	2.5	2	2 1/4
Average earnings(g)(i)	3.8	4 1/4	4 1/4

(a) Percentage change on preceding year unless otherwise indicated.
(b) Calculated using original data. Outcomes have been calculated using 2001-02 Annual National Accounts, where possible.
(c) Chain volume measure.
(d) Excludes second-hand asset sales from the public sector to the private sector.
(e) Percentage point contribution to growth in GDP.
(f) For presentational purposes, for the last column, forecast changes in inventories held by privatised marketing authorities are included with the inventories of the farm sector and public marketing authorities.
(g) Outcomes for 2001-02 are based on June quarter National Accounts data.
(h) The level in the June quarter of each year, seasonally adjusted.
(i) Average earnings (national accounts basis).

Dwelling investment is now expected to grow by 9 per cent in 2002-03, compared with a 3 per cent decline forecast at Budget. The revision reflects stronger than expected growth in new dwelling investment in 2001-02 and partial indicators pointing to still-firm levels of activity in the sector. House prices have continued to rise, and with the global backdrop still uncertain, the prospect of a longer period of historically low mortgage interest rates may have extended the current cycle a little longer than previously expected. However, recent high levels of activity appear to be unsustainable and dwelling investment is likely to weaken substantially over the next year. House prices are also unlikely to sustain the pace of growth of the past couple of years, and downward price pressures may emerge in some segments of the market — particularly medium density dwellings — where rising vacancy rates and falling yields already point to an oversupply. Continued growth in expenditure on alterations and additions should moderate the overall expected decline in dwelling activity.

Despite the uncertainties surrounding the global economic outlook, **private business investment** is expected to remain strong, underpinned by low interest rates, a competitive exchange rate and solid corporate profitability. Business sentiment remains firm and investment intentions data continue to point to strong private business investment growth in 2002-03. Private new business investment is forecast to rise by around 11 per cent in 2002-03, with investment in both machinery and equipment and buildings and structures expected to grow strongly. The forecast is marginally lower than at Budget, largely reflecting the weaker global outlook and the weaker outlook for agricultural investment, which is expected to fall sharply in 2002-03 as drought-affected farmers defer investment plans following the surge in spending during 2001-02.

New investment in machinery equipment is expected to increase by 11 per cent in 2002-03, although there is a risk that if global conditions deteriorate further, some of this investment may be put on hold. To date, however, investment intentions for 2002-03 have been very strong. Total investment should also continue to be supported by investment in buildings and structures, which is likely to be more resilient to adverse global conditions. Investment in buildings and structures is expected to grow by 18 per cent in 2002-03, driven by very strong growth in engineering construction. The commencement of work on several large-scale engineering construction projects has almost tripled the amount of engineering construction work-yet-to-be-done since the June quarter of 2001, to over $6 billion in the June quarter of 2002.

Higher investment in private non-farm **inventories** (excluding private marketing authorities) is expected to contribute around ¼ of a percentage point to GDP growth in 2002-03, as firms rebuild their inventory levels after the rundown in 2001-02. However, an expected rundown in farm and private marketing authority inventories, as existing stocks are used to augment drought-affected supplies, is forecast to subtract around ¼ of a percentage point from growth in 2002-03.

Public final demand is expected to grow by around 3¼ per cent in year-average terms, around the longer-term trend and in line with Budget estimates. The expected growth in public final demand partly reflects additional defence spending, airport security, and border protection and, at the state level, additional expenditure on education, health, and various infrastructure projects.

The outlook for **net exports** is weaker than at Budget reflecting continued international weakness and the expected reduction in rural exports due to the drought. Net exports are forecast to subtract around 1¾ percentage points from GDP growth in 2002-03 compared with a subtraction of around 1 percentage point expected at Budget.

Export growth is expected to be around 2 per cent in 2002-03, down from 6 per cent growth forecast at Budget. Rural exports are expected to subtract about 2 percentage points from total export growth in 2002-03. The outlook for imports is broadly unchanged from Budget with imports expected to increase by around 10 per cent in 2002-03, in line with expected strong domestic demand, particularly import-intensive private business investment.

The terms of trade is expected to increase by around 2¼ per cent in 2002-03, a little lower than forecast at Budget, with the downward revision largely due to the ongoing global weakness. Export prices are expected to be flat, while import prices are expected to fall by around 2 per cent, partly reflecting the ongoing decline in the price of ICT goods.

With the weaker near-term export outlook, and slightly weaker terms of trade than at Budget, the current account deficit is expected to widen and average around 4½ per cent of GDP in 2002-03. A further deterioration in global economic conditions or a worsening of the drought would place additional pressure on the current account.

The outlook for the **labour market** remains broadly unchanged from Budget. Employment growth of 1¾ per cent is forecast for 2002-03, reflecting the solid outlook for non-farm GDP growth and expected moderate wages growth. As foreshadowed at Budget, the unemployment rate is expected to gradually decline through the year to around 6 per cent in the June quarter 2003. The participation rate is expected to be broadly unchanged. Some moderation in employment is likely in the construction sector as new dwelling construction slows. Farm employment has already fallen as a result of the drought and is likely to remain weak for some time.

With employment growth projected to be moderate, and labour market capacity constraints unlikely to be breached over the next year, **wages** growth is expected to be steady. Some pressures may be experienced in sectors where demand is starting to push up against supply constraints — such as in the construction industry — but overall wages growth should remain moderate. Wages are forecast to increase by around 4¼ per cent through the year to June 2003, which includes the recent rise in the Superannuation Guarantee Contribution.

Expected moderate wages growth and productivity growth of 1¾ per cent per year should see nominal unit labour costs grow by around 2½ per cent and 2¼ per cent in 2002-03 and 2003-04 respectively. Other cost pressures appear muted and there has been little evidence of margin building by firms. Consequently, moderate **inflation** of 2½ per cent is forecast through the year to June 2003. There are likely to be temporary pressures from higher petrol prices and the impact of the drought on food prices. However, with international conditions remaining subdued and structural and technological changes in some trading partner countries also underpinning low inflation for traded goods, import price inflation should remain low, moderating any increase in overall inflation in 2002-03.

Domestic economy — 2003-04

The outlook for 2003-04 is underpinned by an expected gradual pick-up in world growth, and an assumption that seasonal conditions will return to normal, ending the drought. Against this backdrop, GDP growth is forecast to rebound to around 4 per cent in 2003-04. However, non-farm GDP growth is expected to be a little weaker than in 2002-03, largely due to an expected fall in dwelling construction.

Despite these solid growth prospects, there are substantial risks to the outlook, particularly if global economic conditions do not slowly improve as expected, or if the drought does not break in 2003-04. Offsetting these risks are some upside risks, particularly for investment spending, which appears to be gathering momentum.

Consumption is forecast to grow solidly in 2003-04, a little below forecast income growth, with the slowdown from 2002-03 reflecting a moderation in some of the wealth-induced spending of the previous couple of years. The anticipated slowdown in dwelling investment in 2003 is expected to dampen consumption.

Dwelling investment is forecast to decline in 2003-04, as the bring-forward of new dwelling investment due to the First Home Owners Scheme is unwound further. Alterations and additions are expected to continue to grow solidly.

Private business investment is forecast to rise strongly in 2003-04, underpinned by solid domestic conditions and the prospect of firming international conditions. Investment in both machinery and equipment and buildings and structures is expected to grow strongly.

Net exports are forecast to continue to subtract from GDP growth in 2003-04, although the subtraction is likely to be substantially below that in 2002-03. Export growth is expected to pick-up in line with the expected global recovery and the ending of the drought, while imports are forecast to grow solidly. The terms of trade should increase moderately, largely reflecting continued subdued import price increases. The current account deficit is forecast to narrow.

Employment growth of around 1¾ per cent is expected in 2003-04, consistent with the solid growth outlook for the domestic economy. This rate of employment growth should see the unemployment rate decline slowly, to below 6 per cent by the end of 2003-04.

Wages are expected to grow moderately in 2003-04, reflecting the steady pace of employment growth. Inflation is forecast to be 2½ per cent through the year to

June 2004. There are, however, some upside risks to this outlook, particularly if global conditions improve substantially or if domestic demand were to grow more strongly than currently anticipated.

Medium-term projections

Table 4 sets out the major economic parameters used in preparing the revised Budget estimates. The parameters are the revised forecasts for 2002-03 and 2003-04 and medium-term projections for the following two financial years.

Consistent with the usual convention the projections reflect expected medium-term average growth rates. The projections have been revised since Budget to bring them more closely into line with recent experience and likely medium-term outcomes. Real GDP growth is still projected to be around 3½ per cent per year, although the assumed composition of growth is different. Employment growth is projected to be 1½ per cent per year (compared with 2 per cent per year previously) in line with projected changes in working age population growth and participation rates. Productivity growth is projected to be 2 per cent per year (compared with 1½ per cent per year previously), in line with productivity outcomes during the 1990s. While 1990s-type productivity growth rates should be able to be sustained over coming years, productivity is expected to ease back towards its long-term growth rate of around 1¾ per cent in the latter part of the decade.

Wages growth is projected to be 3¾ per cent (compared with 3½ per cent previously) broadly in line with wages growth during the 1990s. The CPI is projected to increase by 2½ per cent per year. The GDP deflator, a broader price measure that historically grows more slowly than the CPI, is projected to grow by 2 per cent per year (compared with 2½ per cent previously).

Table 4: Major economic parameters[(a)]

	Forecasts		Projections	
	2002-03	2003-04	2004-05	2005-06
Real GDP	3	4	3 1/2	3 1/2
Employment(b)	1 3/4	1 3/4	1 1/2	1 1/2
Wages(c)	4 1/4	4	3 3/4	3 3/4
CPI	2 3/4	2 1/2	2 1/2	2 1/2

(a) Percentage change on preceding year.
(b) Labour force survey basis.
(c) Average earnings (national accounts basis).