

ECONOMIC OUTLOOK

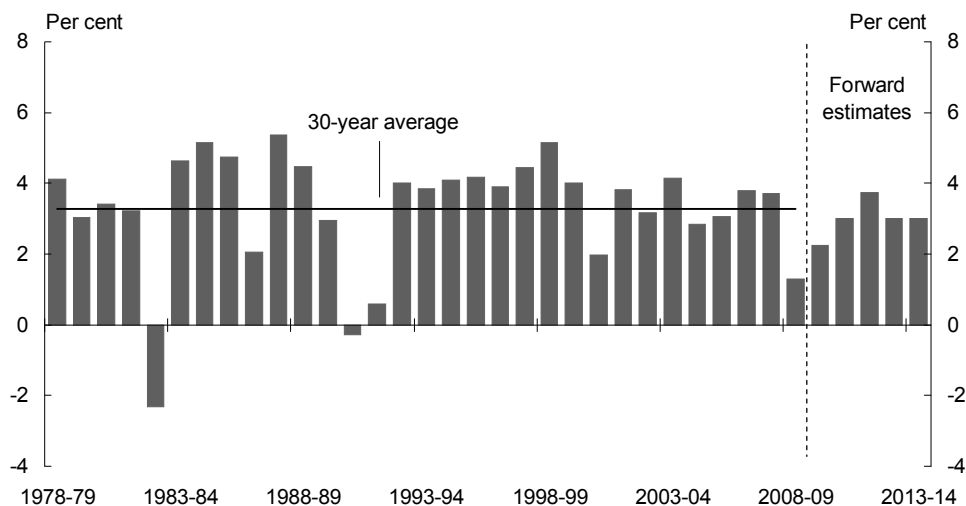
The Australian economy continues to perform well and the outlook remains positive, notwithstanding increased global uncertainty again starting to weigh on confidence.

Over the past year the economy has been supported by substantial fiscal and monetary stimulus. This has helped position Australia as one of the strongest economies in the developed world and underpinned solid employment growth, with 353,000 jobs added in the past year.

As this policy stimulus is progressively withdrawn the outlook is increasingly dependent on a private sector recovery. There are early signs this recovery is underway, and conditions are expected to improve with growth in business investment and exports gathering momentum over 2010-11 and 2011-12 – driven by a substantial boost in the terms of trade and ongoing strong demand for Australian commodities.

Expected strong investment, largely associated with the mining boom, continues to underpin the positive growth outlook. The Australian economy is expected to grow by 3 per cent in 2010-11 and 3¾ per cent in 2011-12 (Chart 2), slightly lower than anticipated at Budget. However a higher terms of trade is supporting stronger nominal GDP growth than forecast at Budget.

Chart 2: Real GDP growth over the forward estimates



Source: ABS cat. no. 5206.0, Treasury.

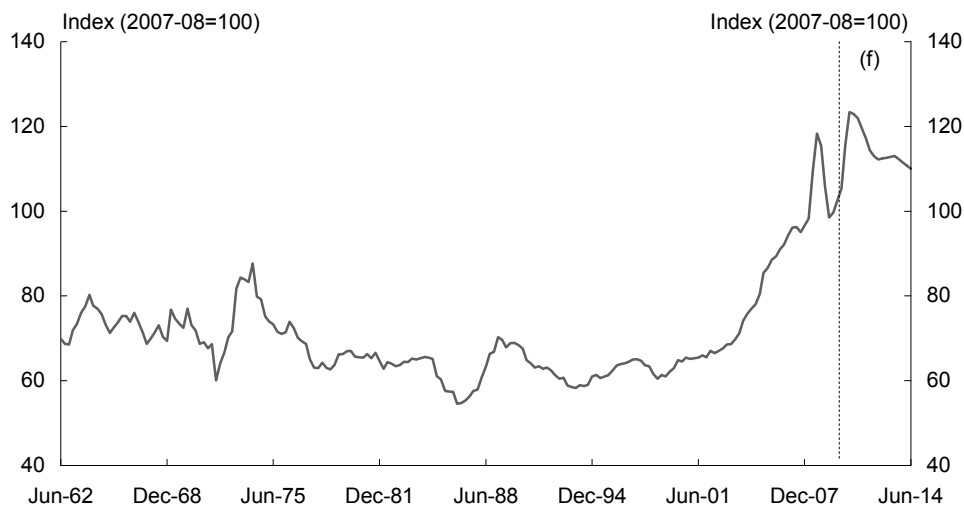
The global economy is continuing to recover, although the pace of growth remains uneven with emerging economies, particularly in Asia, growing much more strongly than advanced economies. The world economy is expected to grow by 4½ per cent in 2010 and 4 per cent in 2011.

However, the outlook is clouded by substantial downside risks. Concerns about European sovereign debt, uncertainty over the US transition to self sustaining growth, the challenge in China of managing inflationary pressures and the difficulty in managing fiscal consolidation across the advanced economies in an environment where global growth is still fragile all present risks for the global outlook.

To date, the renewed global uncertainty has not had a material impact on global growth or the Australian economy. However, if sustained, the increased financial market volatility and softening business and consumer confidence could start to weigh on growth.

Notwithstanding these risks, the global recovery, and in particular the strength of the Asian region, is expected to continue to generate strong demand for non-rural commodities, with further price increases expected for Australia's main commodities, iron ore and coal. Over the past year iron ore prices have more than doubled and there have been substantial increases in coal prices. The terms of trade are forecast to increase by 17 per cent in 2010-11 – to around their highest levels on record, before declining as expected increases in global supply start to moderate commodity price pressures (Chart 3).

Chart 3: Terms of trade

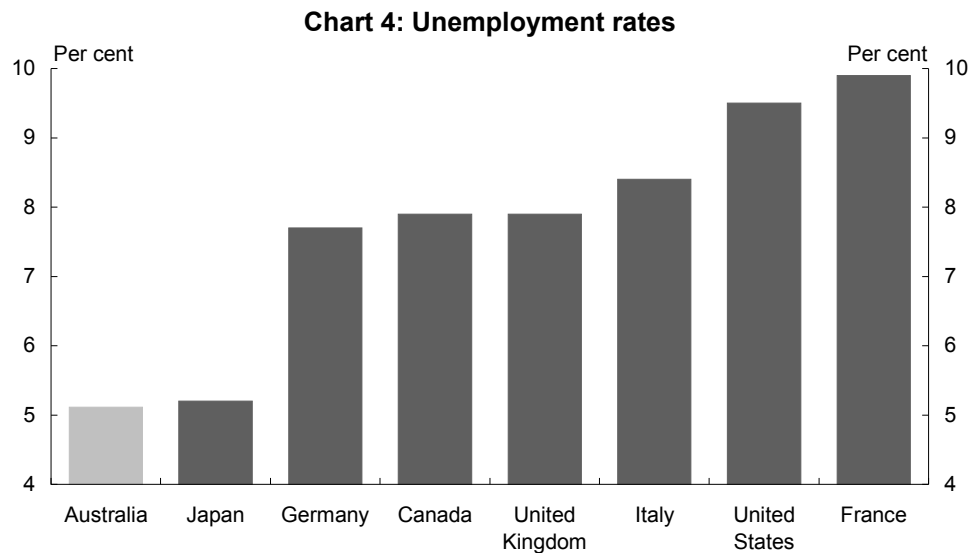


Source: ABS cat. no. 5206.0 and Treasury.

The higher terms of trade will flow through to higher income. Nominal GDP is forecast to grow by 9¼ per cent in 2010-11, which is stronger than at Budget, and by 5¼ per cent in 2011-12. The higher terms of trade is also supporting substantial investment in mining projects. Business investment is expected to pick up considerably in the second half of 2010, with new engineering construction expected to grow by around 17 per cent in 2010-11 and 20 per cent in 2011-12.

Economic Statement

The Australian labour market has been resilient over the past two years and is expected to continue to perform strongly. Australia's unemployment rate, which is already lower than any of the major advanced economies, is expected to fall further to 4¾ per cent in late 2011-12 (Chart 4).



Source: Thomson Reuters, ABS cat. no. 6202.0.

Headline and underlying inflation are each forecast to be 2¾ per cent through the year to June 2011 and 2012. Although contained, inflationary risks are on the upside, with the economy returning to capacity over the forecast period.

DETAIL OF SECTORAL FORECASTS FOR THE AUSTRALIAN ECONOMY

Table 3: Domestic economy forecasts^(a)

	Estimate		Forecasts			
	2009-10		2010-11		2011-12	
	Budget	ES(b)	Budget	ES	Budget	ES
Panel A - Demand and output(c)						
Household consumption	2 3/4	2 1/2	3 1/2	3	4	3 3/4
Private investment						
Dwellings	3	1	7 1/2	5 1/2	4	5 1/2
Total business investment(d)	-2	-3	7	7 1/2	12 1/2	12 1/2
Non-dwelling constructions(d)	-7	-8	8	7 1/2	14 1/2	14
Machinery and equipment(d)	- 1/2	-2	6	7	13	13 1/2
Private final demand(d)	1 3/4	1 1/4	4 1/2	4	6	5 3/4
Public final demand(d)	7 1/4	9	1	1 3/4	- 1/2	-1 3/4
Total final demand	3	3	3 3/4	3 1/2	4 1/2	4
Change in inventories(e)	3/4	3/4	1/2	1/2	0	0
Gross national expenditure	3 3/4	3 3/4	4 1/4	3 3/4	4 3/4	4
Exports of goods and services	1 1/2	2	5	4 1/2	6	6
Imports of goods and services	5	6	9	8 1/2	8 1/2	8
Net exports(e)	- 3/4	- 3/4	-1	-1	- 3/4	- 1/2
Real gross domestic product	2	2 1/4	3 1/4	3	4	3 3/4
Non-farm product	2	2 1/4	3 1/2	3 1/4	4	3 3/4
Farm product	6	2	1	0	2	1
Nominal gross domestic product	2 3/4	3 1/4	8 1/2	9 1/4	5 3/4	5 1/4
Panel B - Other selected economic measures						
External accounts						
Terms of trade	-3 3/4	-3	14 1/4	17	-3 3/4	-4 1/2
Current account balance (per cent of GDP)	-4 3/4	-4 3/4	-3 3/4	-3	-5	-4 1/2
Labour market						
Employment (labour force survey basis)(f)	2 1/2	2 3/4	2 1/4	2 1/4	2	2
Unemployment rate (per cent)(g)	5 1/4	5 1/4	5	5	4 3/4	4 3/4
Participation rate (per cent)(g)	65 1/4	65 1/4	65 1/2	65 1/2	65 1/2	65 1/2
Prices and wages						
Consumer price index(h)	3 1/4	3 1/4	2 1/2	2 3/4	2 1/2	2 3/4
Gross non-farm product deflator	1	1 1/4	5	6 1/4	1 3/4	1 1/2
Wage price index(f)	2 3/4	3	3 3/4	3 3/4	4	4

(a) Percentage change on preceding year unless otherwise indicated.

(b) Employment growth, the unemployment rate and the participation rate are ABS outcomes.

(c) Chain volume measures except for nominal gross domestic product which is in current prices.

(d) Excluding second-hand asset sales from the public sector to the private sector.

(e) Percentage point contribution to growth in GDP.

(f) Seasonally adjusted, through the year growth rate to the June quarter.

(g) Seasonally adjusted, estimate for the June quarter.

(h) Through the year growth rate to the June quarter.

Note: The domestic economy forecasts are based on several technical assumptions. The exchange rate is assumed to remain around its recent average level — a trade weighted index of 68 and a United States dollar exchange rate of around 85 US cents. Interest rates are assumed to move broadly in line with market expectations. Oil prices (Malaysian Tapis) are assumed to remain around US\$80 per barrel. The farm sector forecasts are based on an assumption of average seasonal conditions.

Source: ABS cat. nos. 5206.0, 5302.0, 6202.0, 6345.0, 6401.0, unpublished ABS data and Treasury.