

Economic outlook for 2006

Presentation to CEDA Economic and Political Outlook

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ANZ Bank

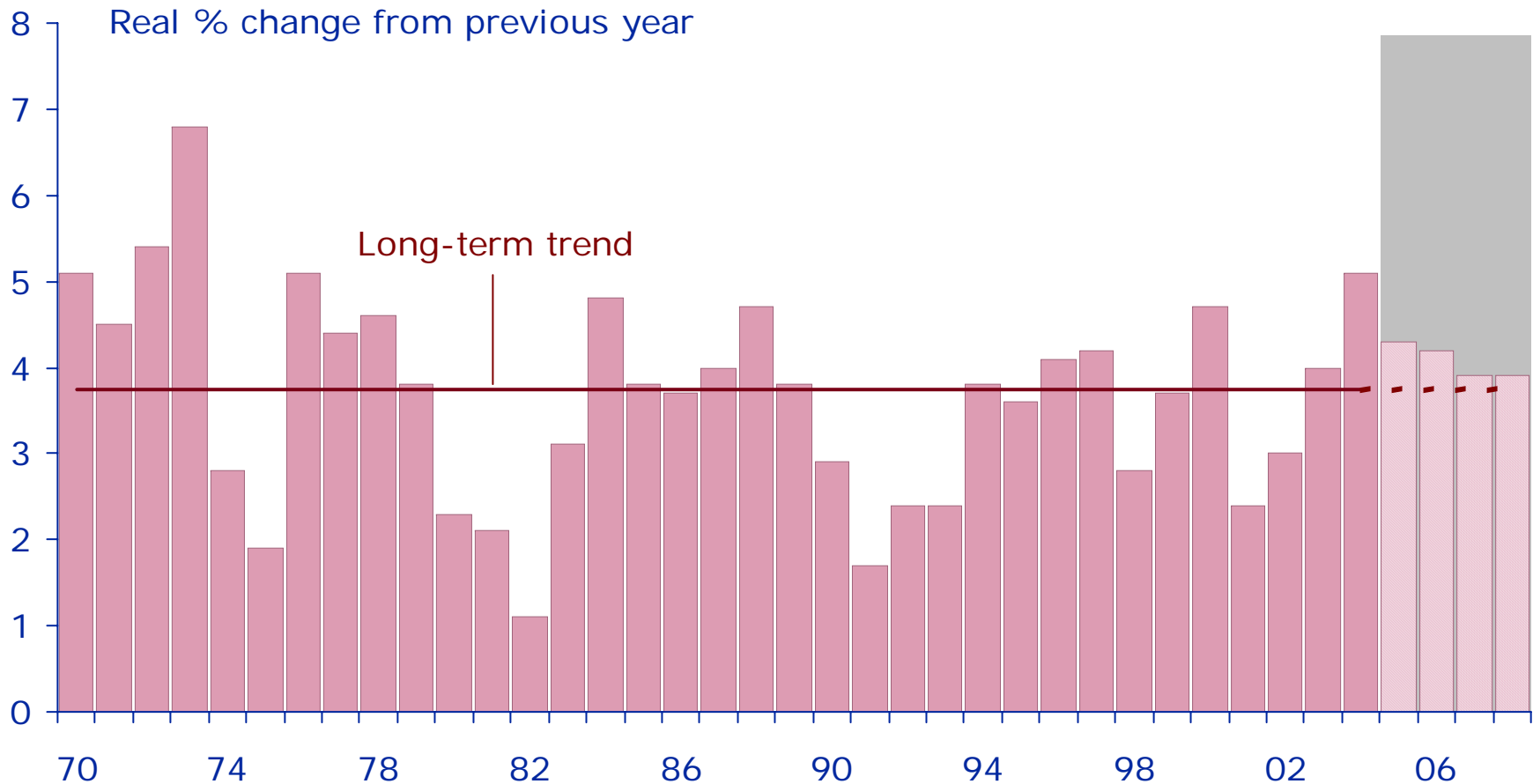
Grand Chancellor
Hobart
20th February 2006

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economics@

The world economy is doing remarkably well

Global economic growth

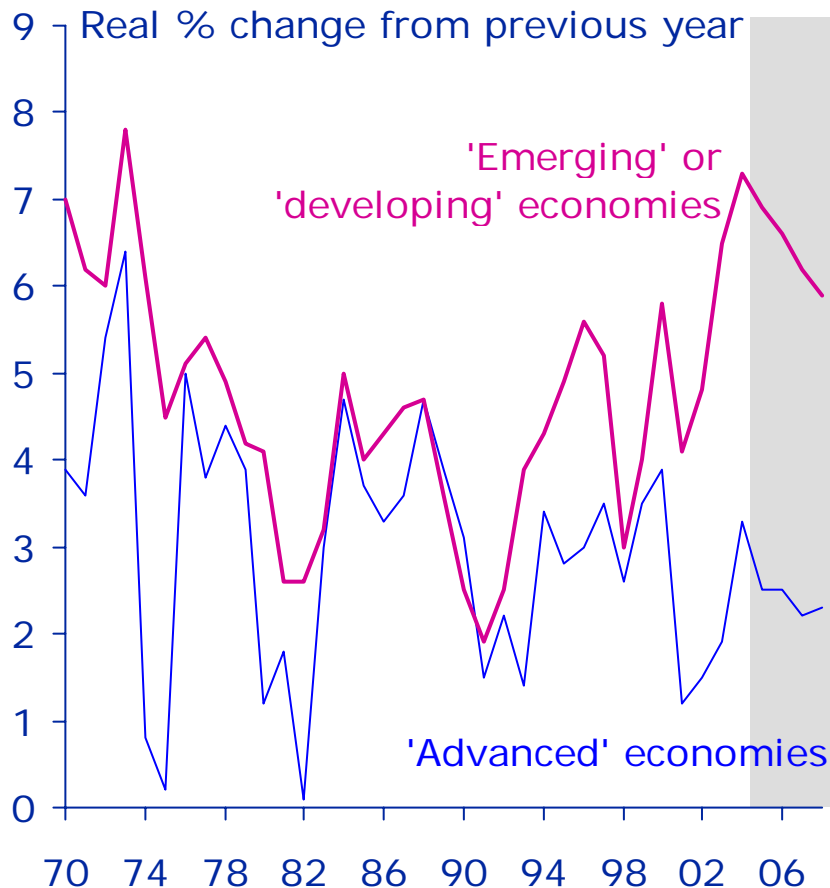


Note: GDP is measured in US\$ at purchasing power parities.

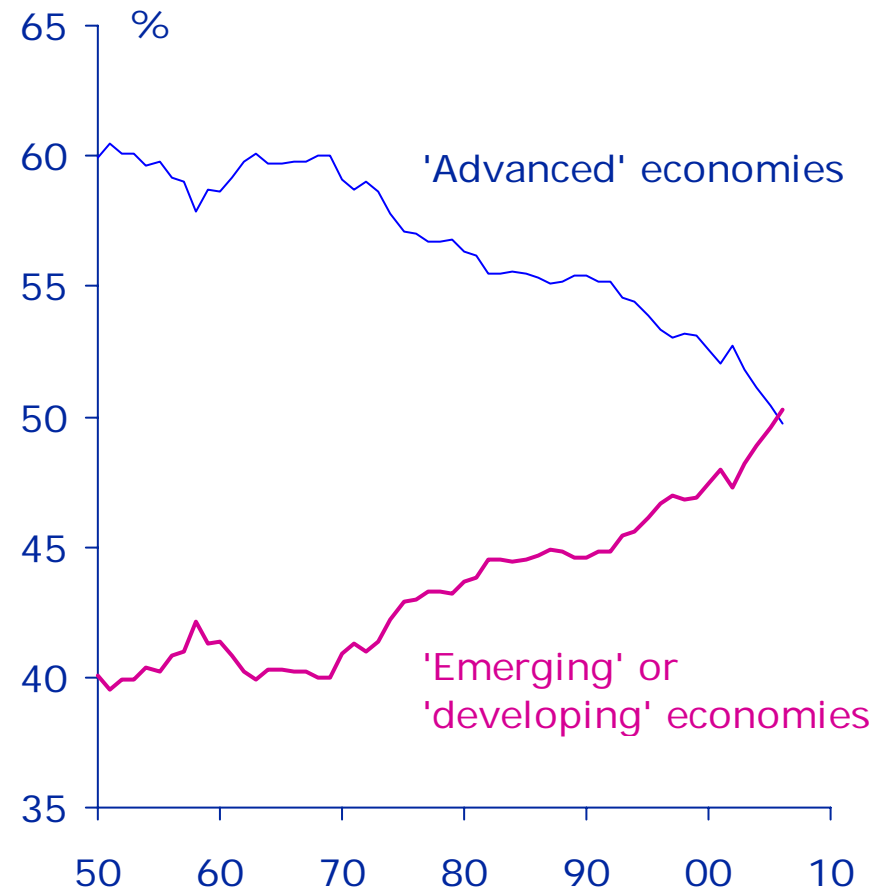
Source: IMF; Economics@ANZ.

Global growth is being increasingly driven by developing economies

Real GDP growth



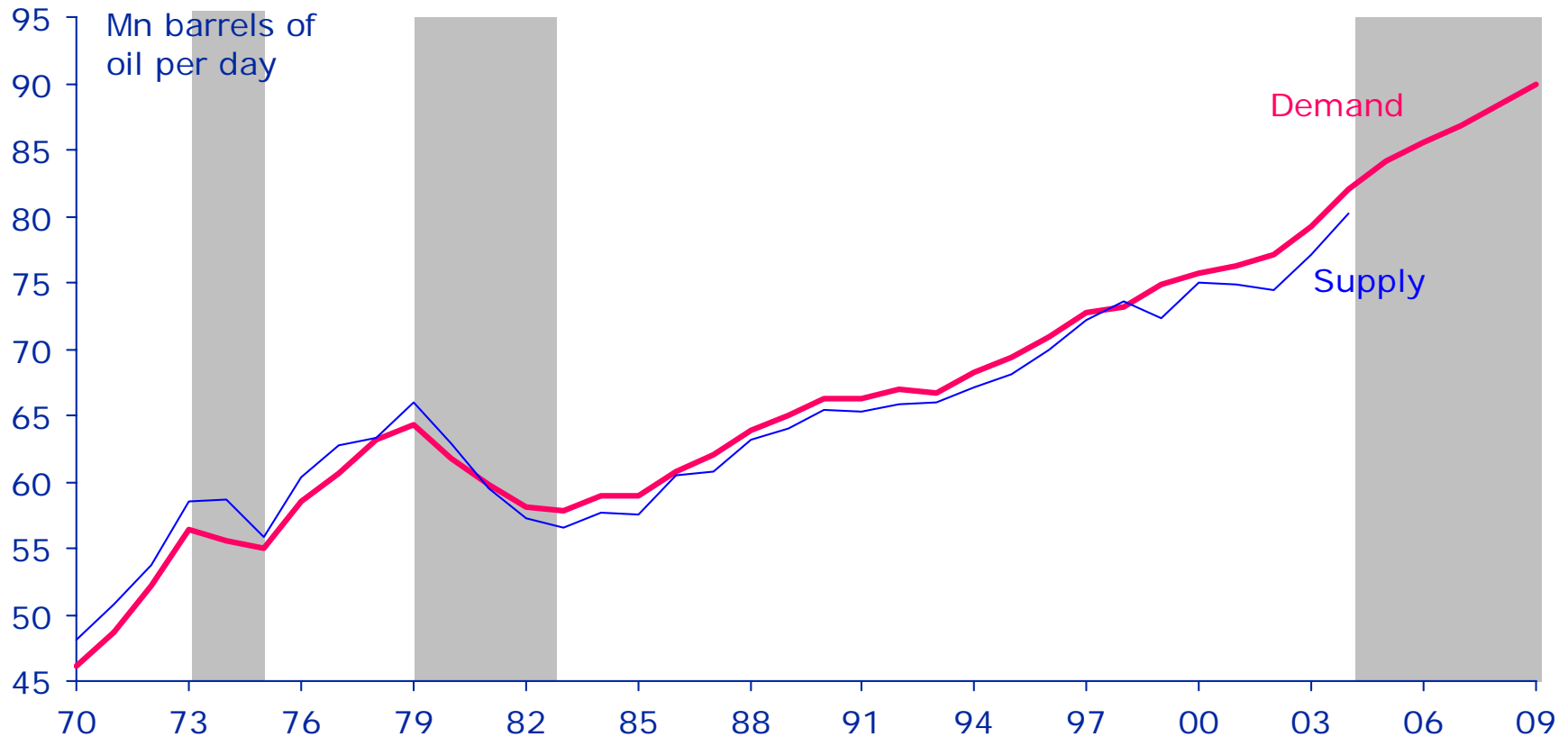
Shares of world GDP



Sources: IMF, *World Economic Outlook*; Angus Maddison, *The World Economy: Historical Statistics*; Economics@ANZ.

High oil prices are the result of strong demand, not reductions in supply as in earlier oil shocks

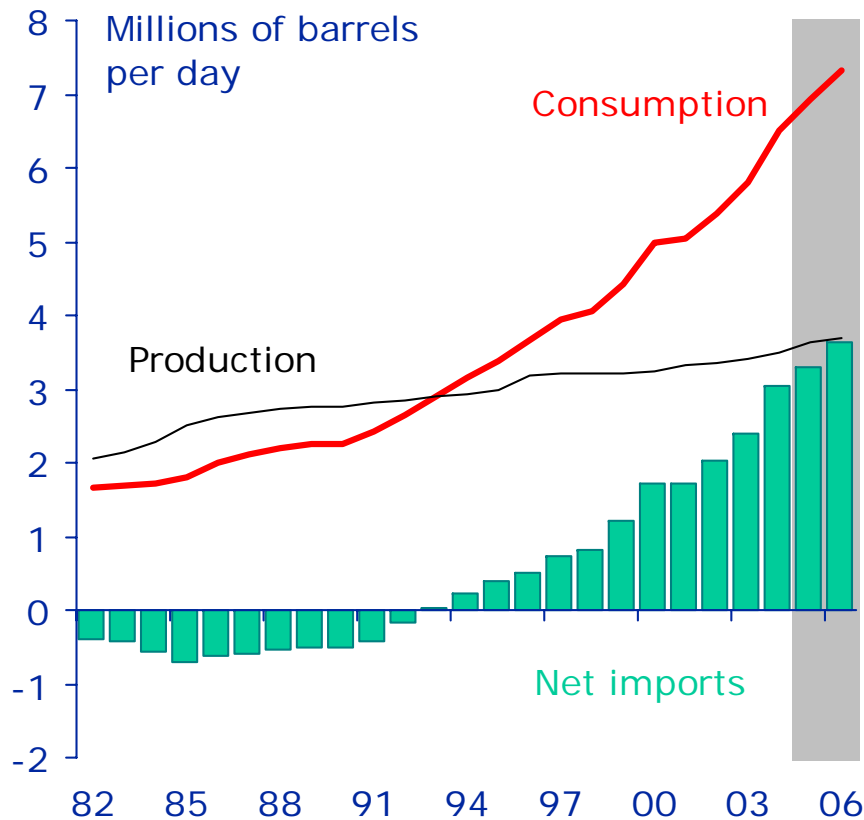
World oil supply and demand



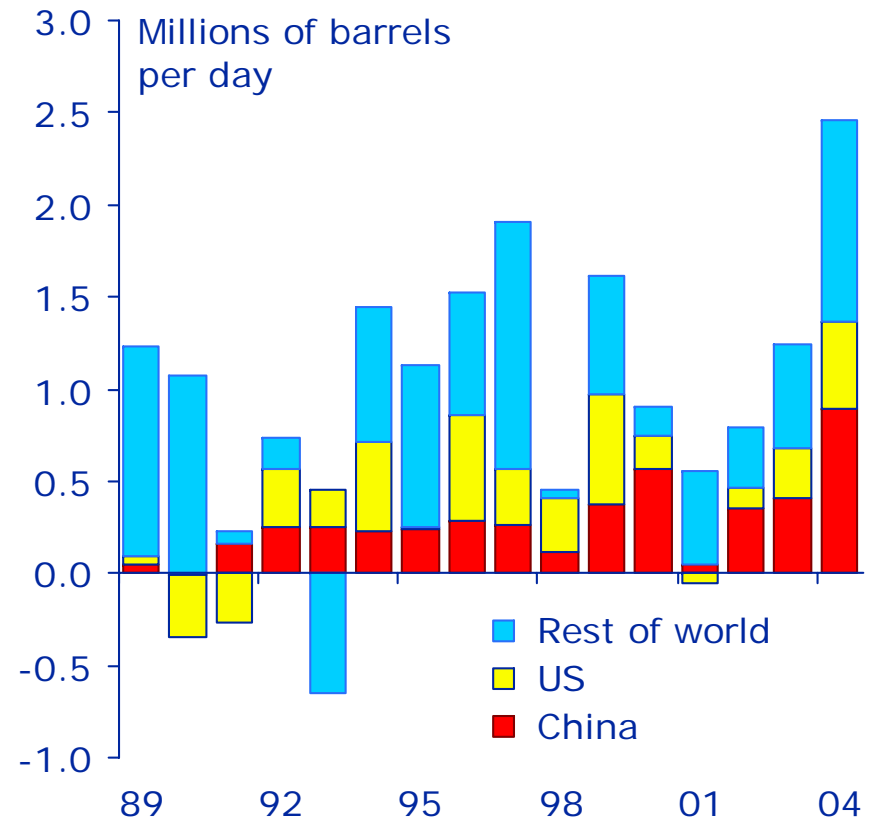
Sources: BP Statistical Review of World Energy 2005;
OPEC; ANZ Natural Resources Group

Over the past four years China has accounted for 38% of the *growth* in world oil demand

Chinese oil consumption and production



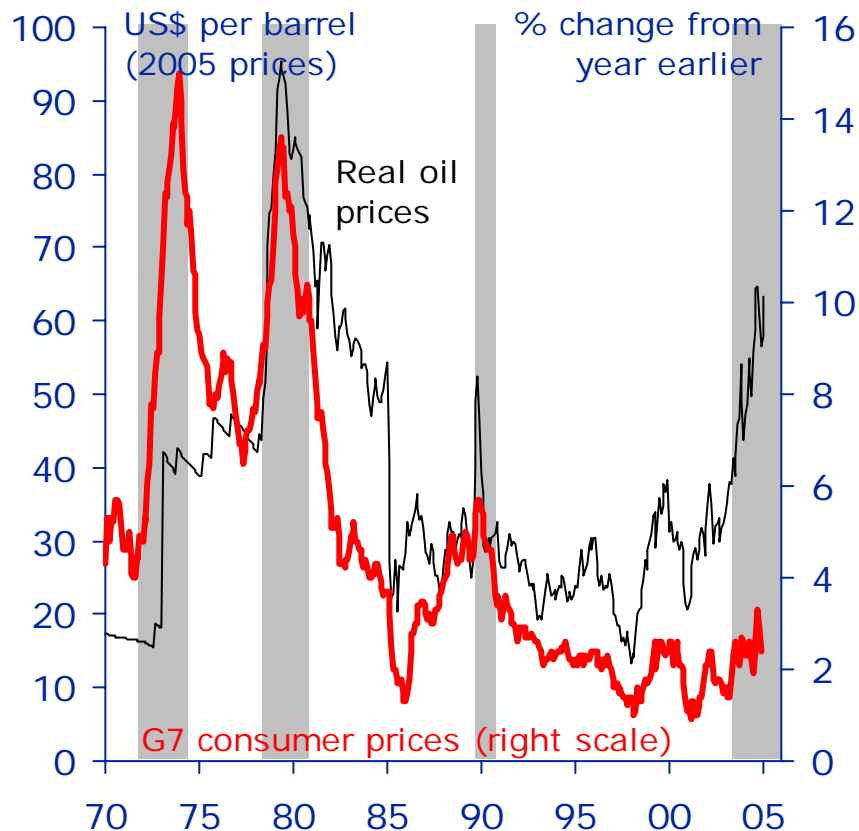
Growth in world oil demand



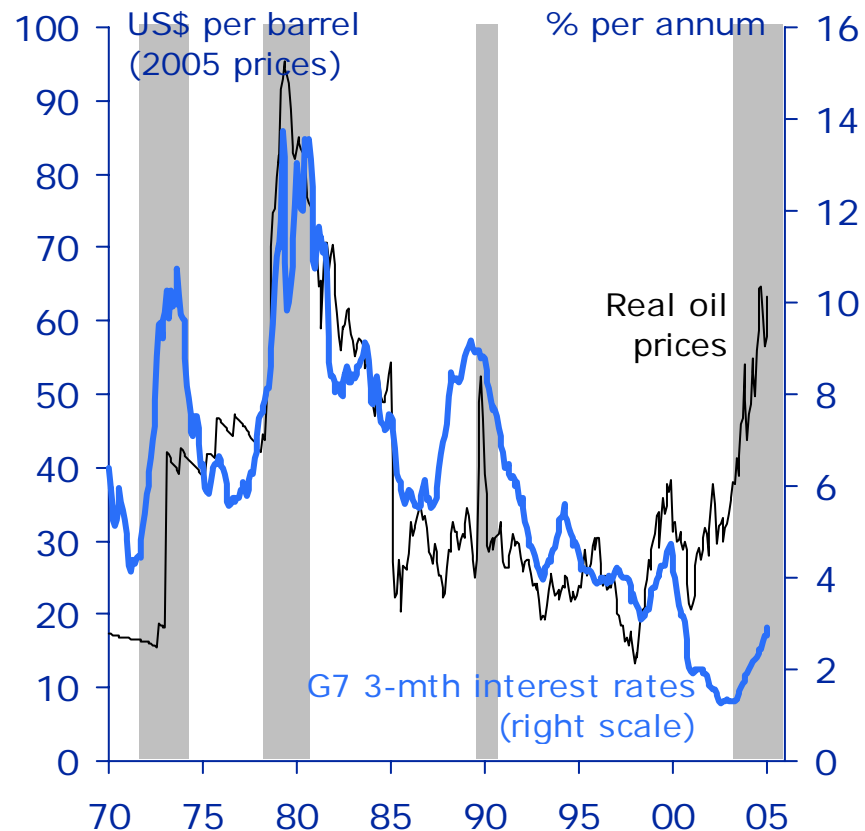
Sources: BP Statistical Review of World Energy 2005; OPEC Monthly Oil Market Report July 2005; Economics@ANZ.

Higher oil prices aren't (thus far) leading to higher inflation and interest rates

Oil prices and inflation



Oil prices and interest rates

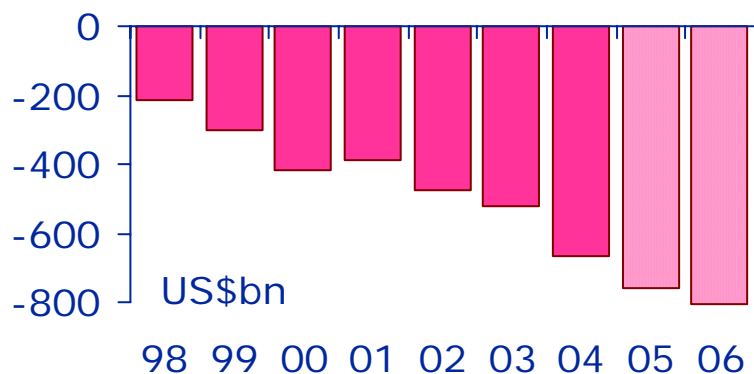


Note: Shaded areas denote "oil price shocks"
Sources: Datastream; OECD; Economics@ANZ.

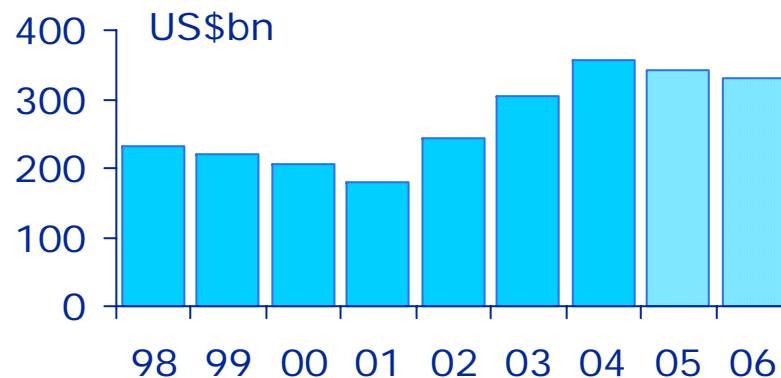
Higher oil prices are leading to some potentially significant shifts in current account balances

Current account balances

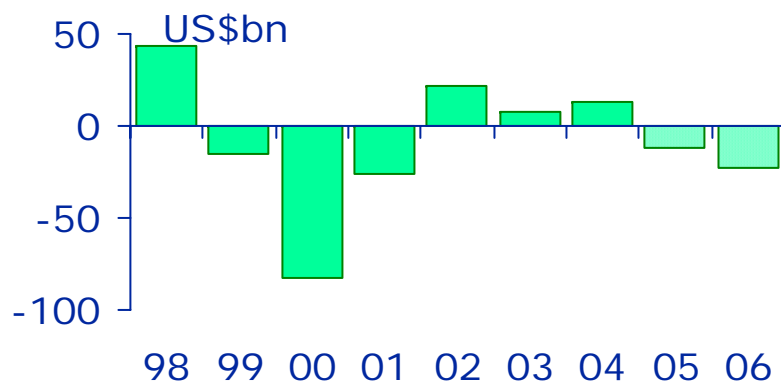
United States



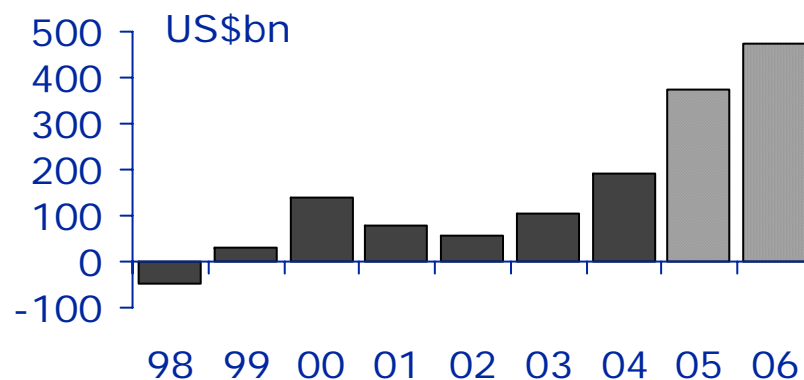
East Asia (incl Japan)



European Union



Selected oil producers

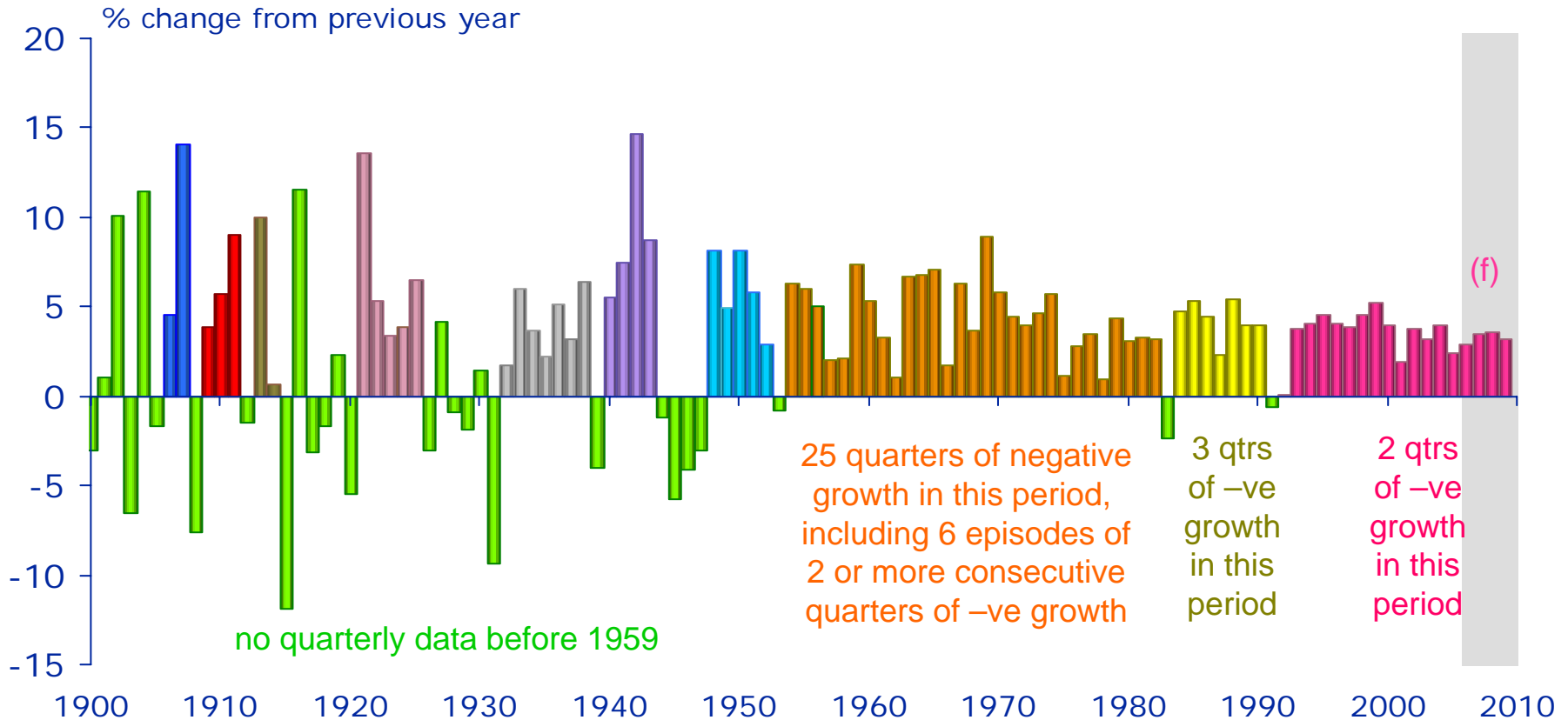


'Selected oil producers' are those in the Middle East, Africa, Russia, Kazakhstan, Azerbaijan, Venezuela and Ecuador.

Source: IMF, *World Economic Outlook* September 2005.

After Australia's longest run of uninterrupted economic growth since Federation ...

Australian real GDP growth, 1901 - 2009

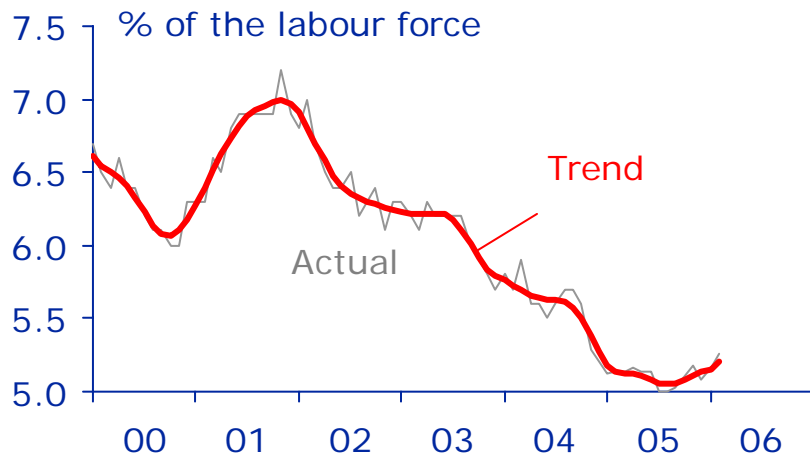


Note: data are for financial years ended 30 June.

Sources: Angus Maddison, *Monitoring the World Economy 1820-1992*; Reserve Bank; ABS; Economics@ANZ.

... the economy is now operating at close to full employment of labour and capital

Unemployment rate



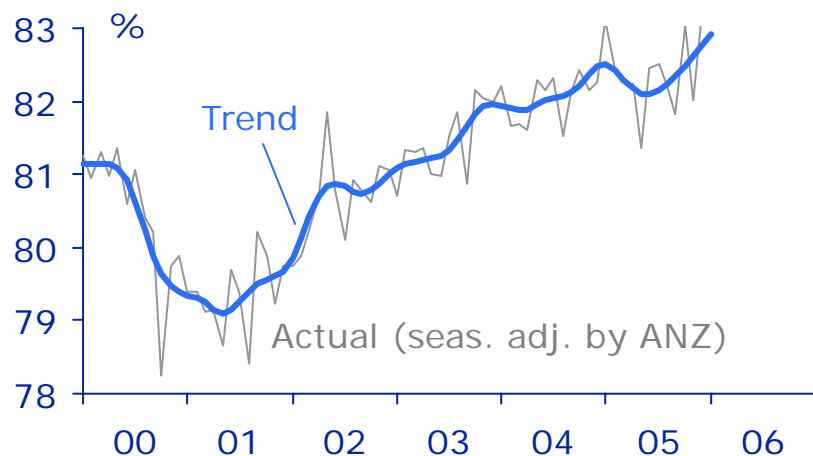
CBD office vacancy rates



Labour shortages



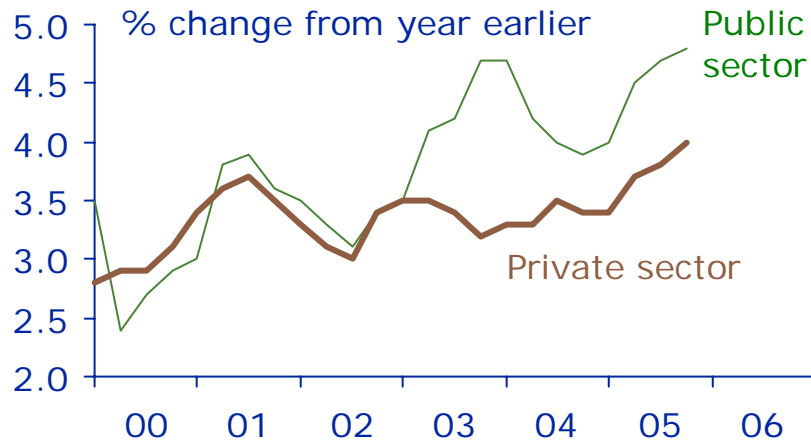
Capacity utilization



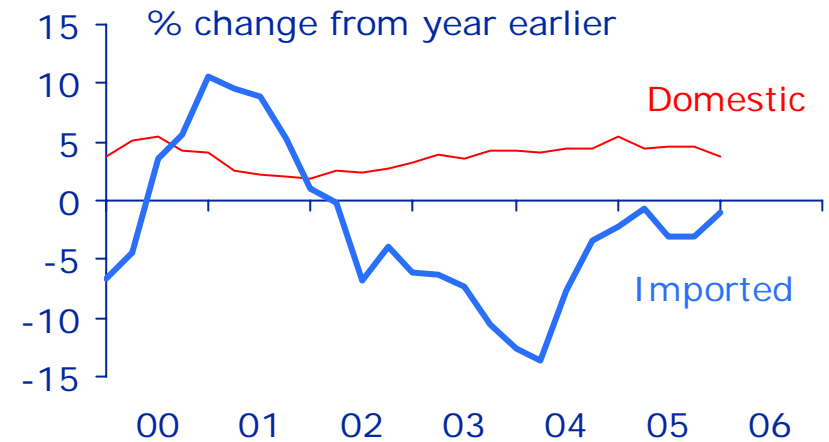
Sources: ABS; National Australia Bank; Property Council of Australia.

As a result, upward pressure on costs and prices is starting to emerge in some places

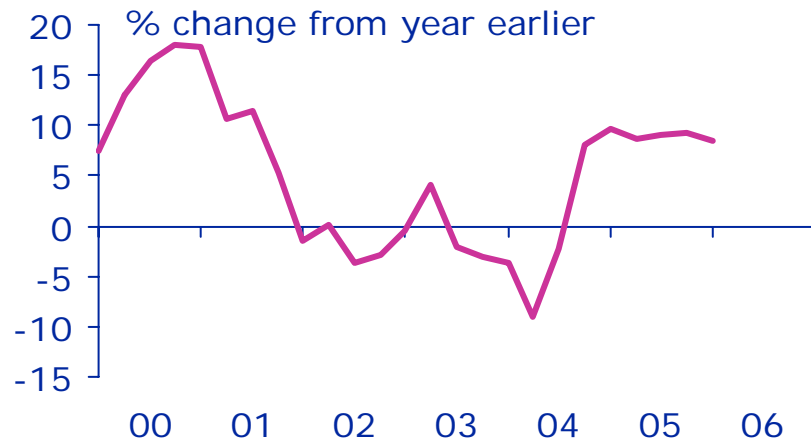
Wage price index



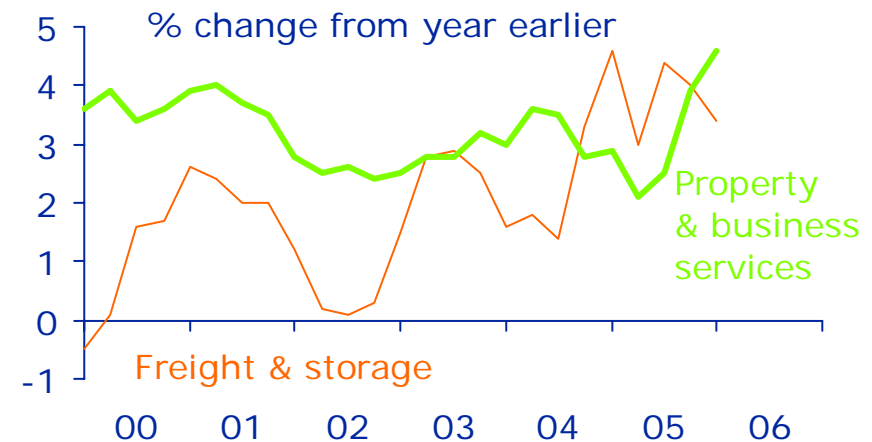
Producer prices - goods



Materials costs



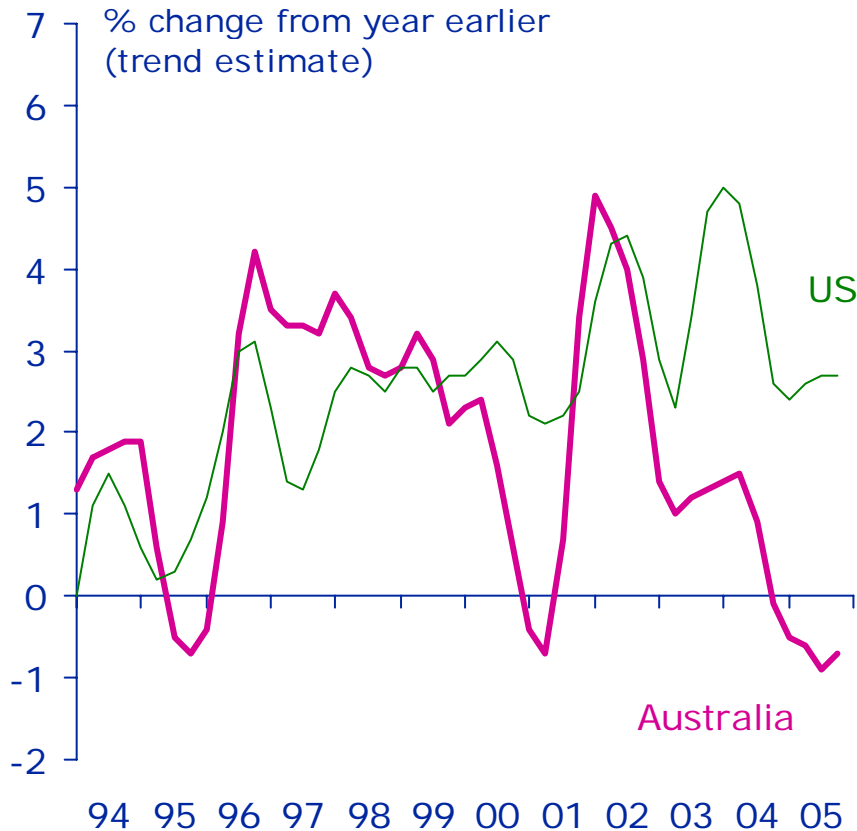
Producer prices - services



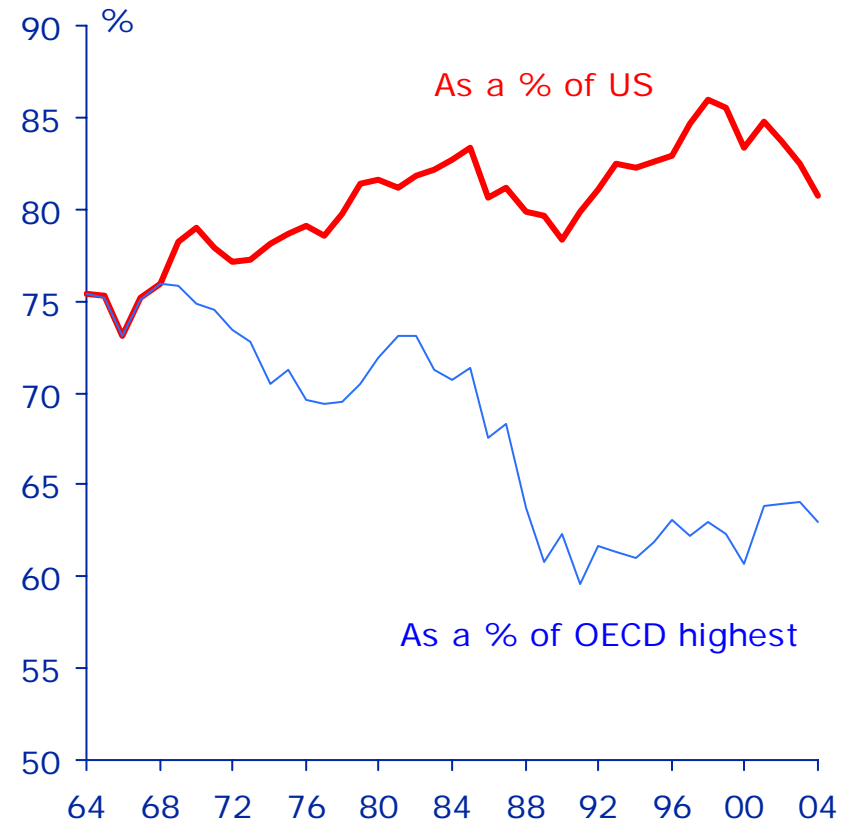
Source: ABS.

In that context it's disturbing that productivity growth has gone backwards since 2003

Labour productivity growth



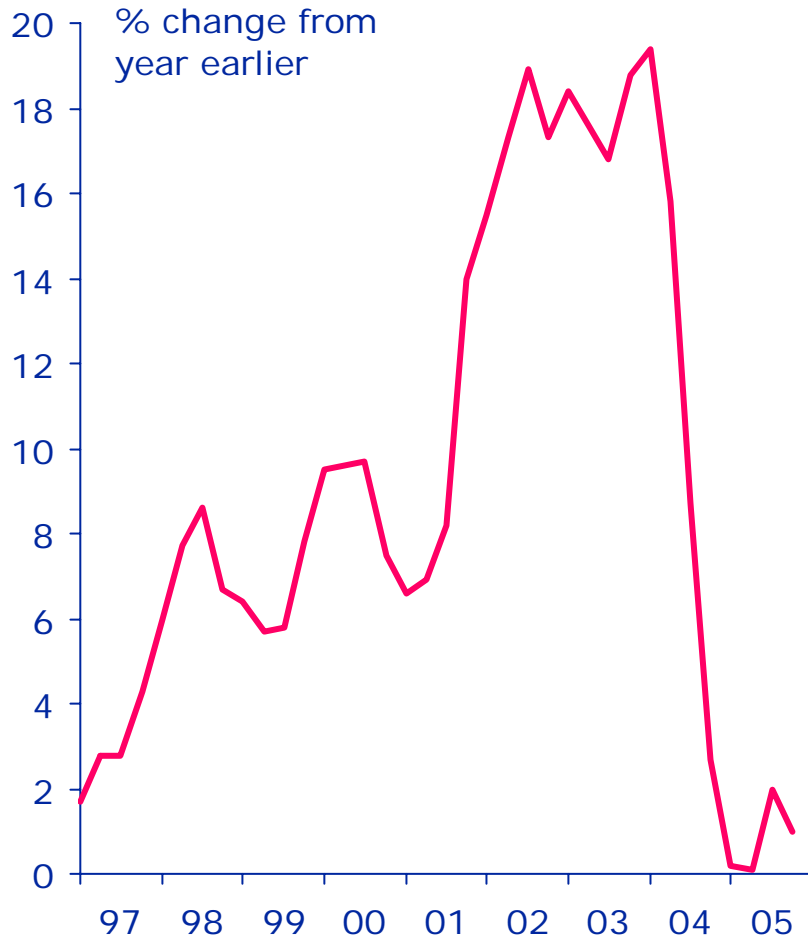
Australian labour productivity as % of US and OECD best



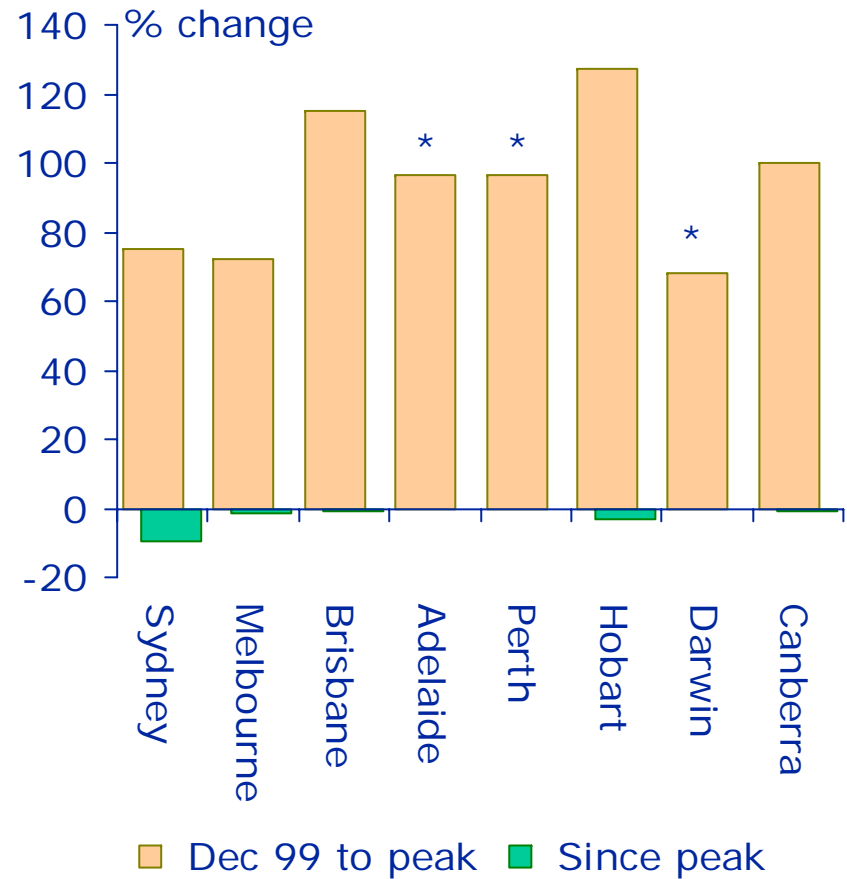
Note: labour productivity is output per hour worked in the non-farm business or market sector. *Sources:* ABS; US Bureau of Economic Analysis; University of Groningen (Netherlands) Growth & Development Centre.

The housing boom is over in most of Australia's capital cities

Capital city house prices



Movements to and since peak

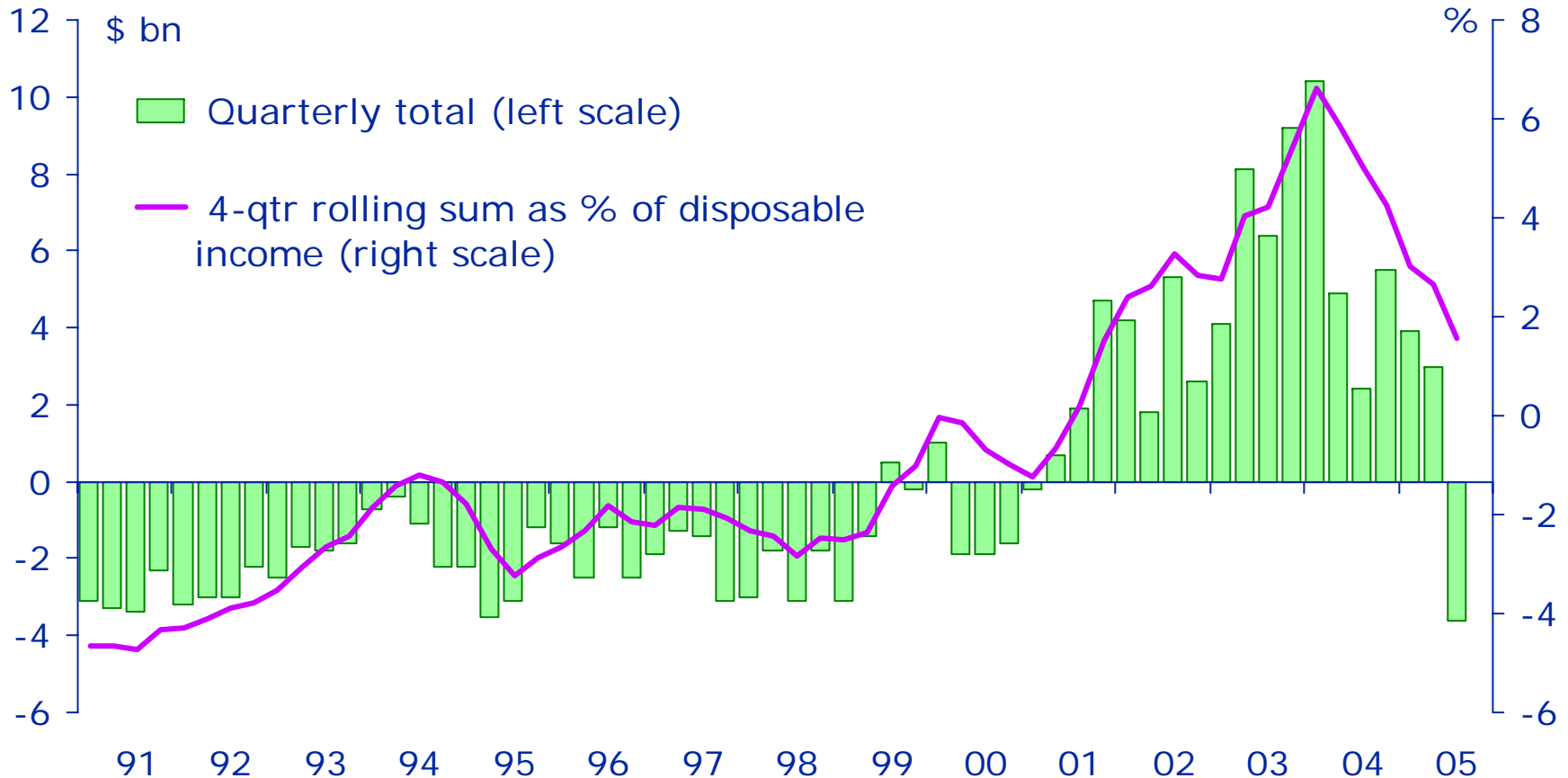


* Not yet peaked (as of Sep 2005)

Sources: ABS; Economics@ANZ.

Australian households have stopped borrowing against actual or expected rises in house prices

Mortgage equity withdrawal



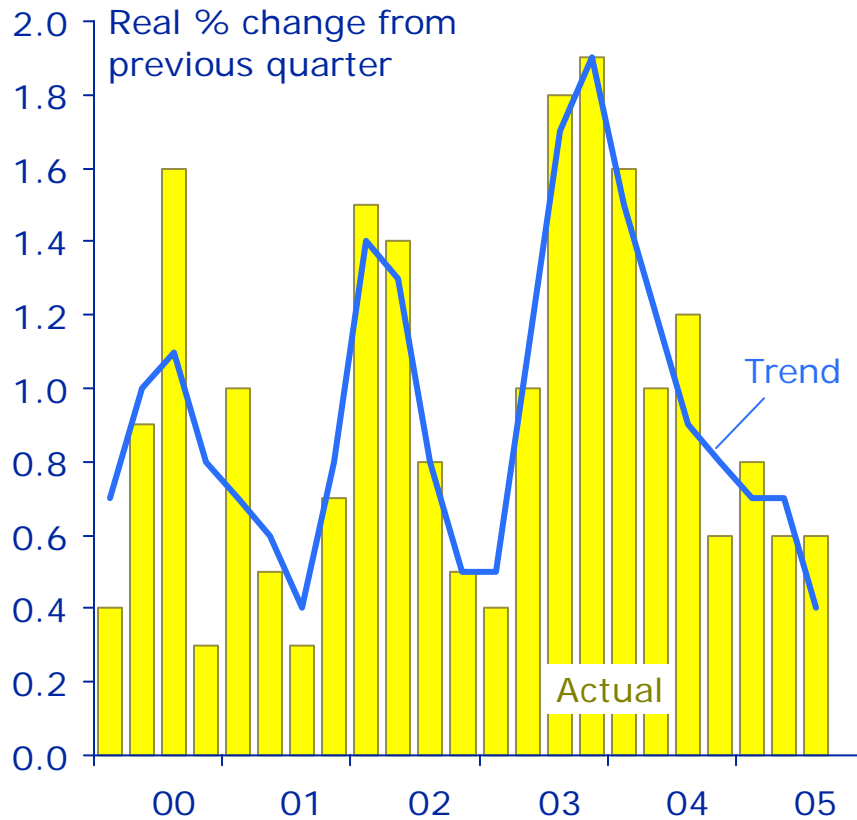
Note: 'mortgage equity withdrawal' measures borrowings for (or secured against) housing net of repayments and purchases of housing.

Sources: ABS; RBA; Economics@ANZ.

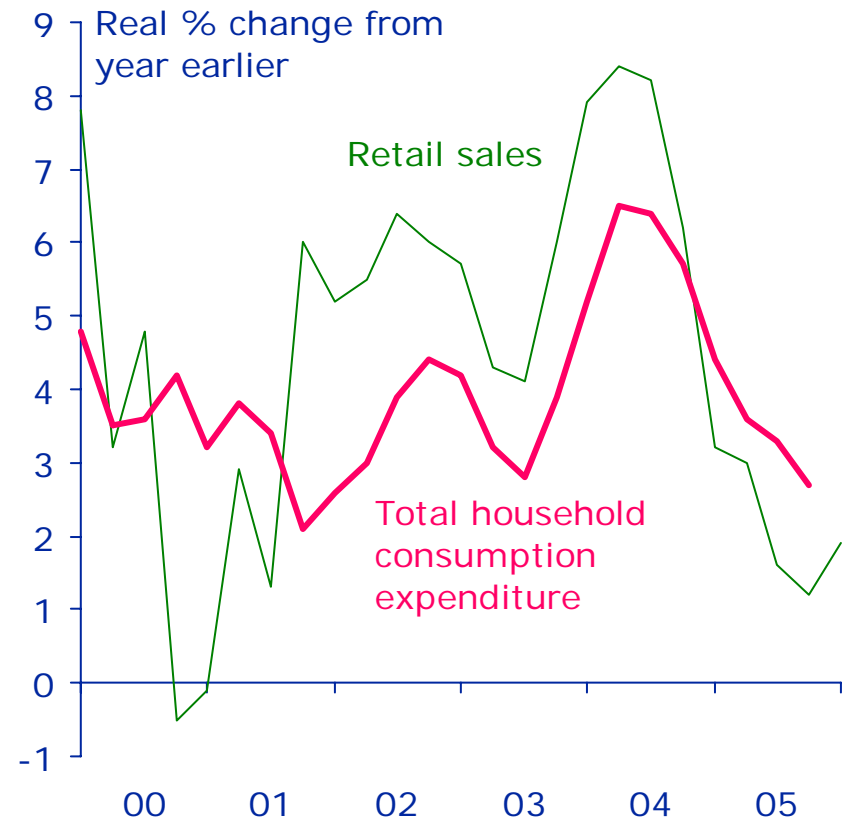
Consumer spending – which has been the main driver of growth in recent years – is now slowing

Growth in consumer spending

Quarterly



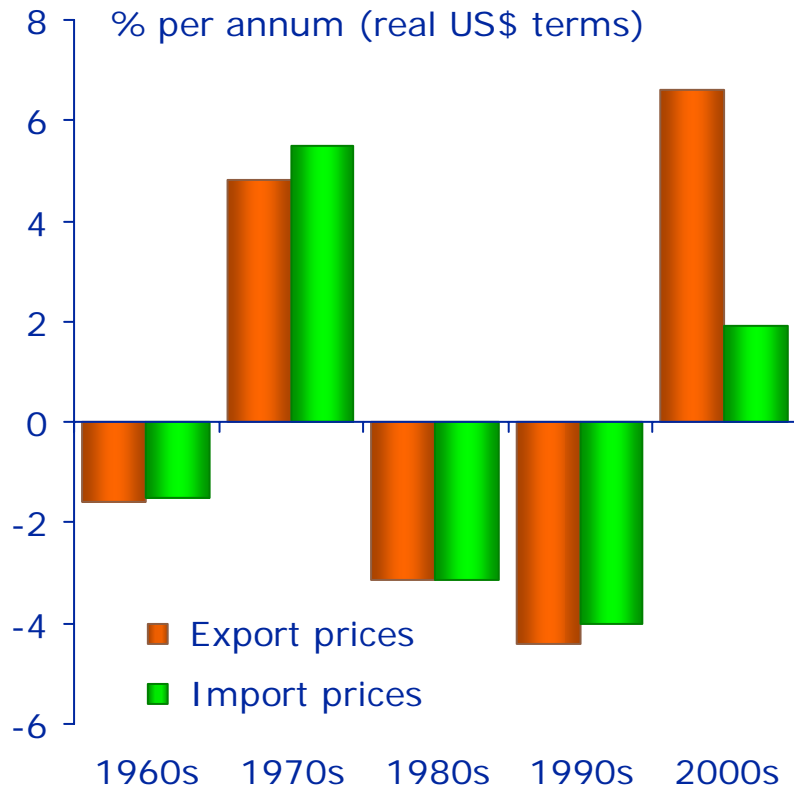
Annual



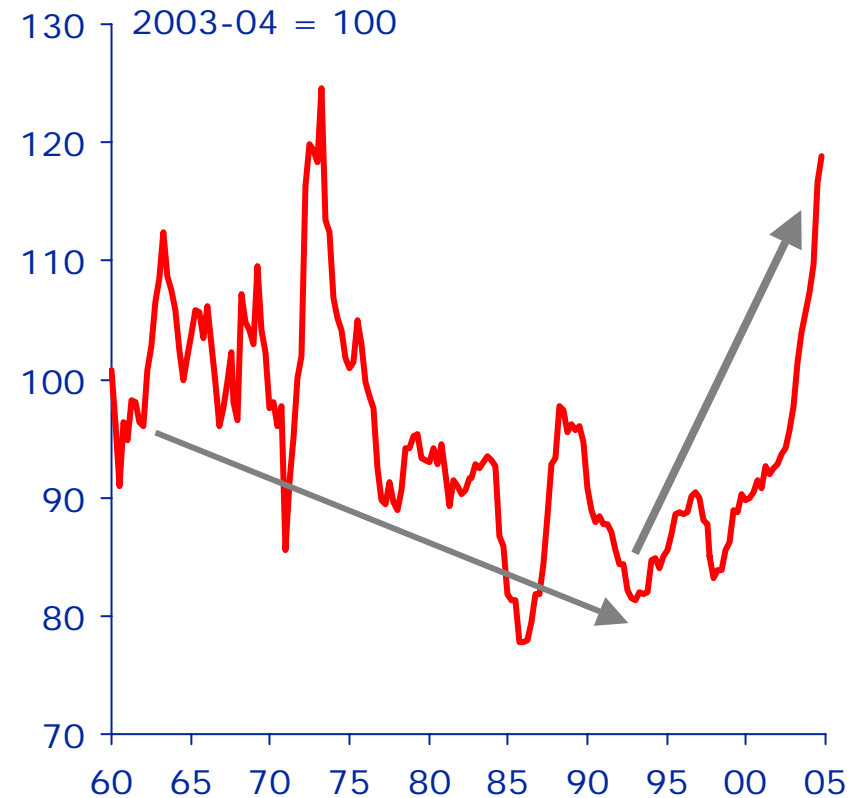
Source: ABS.

China's global impact on *relative* prices is hugely beneficial for Australia

Long-term price changes for Australian exports and imports



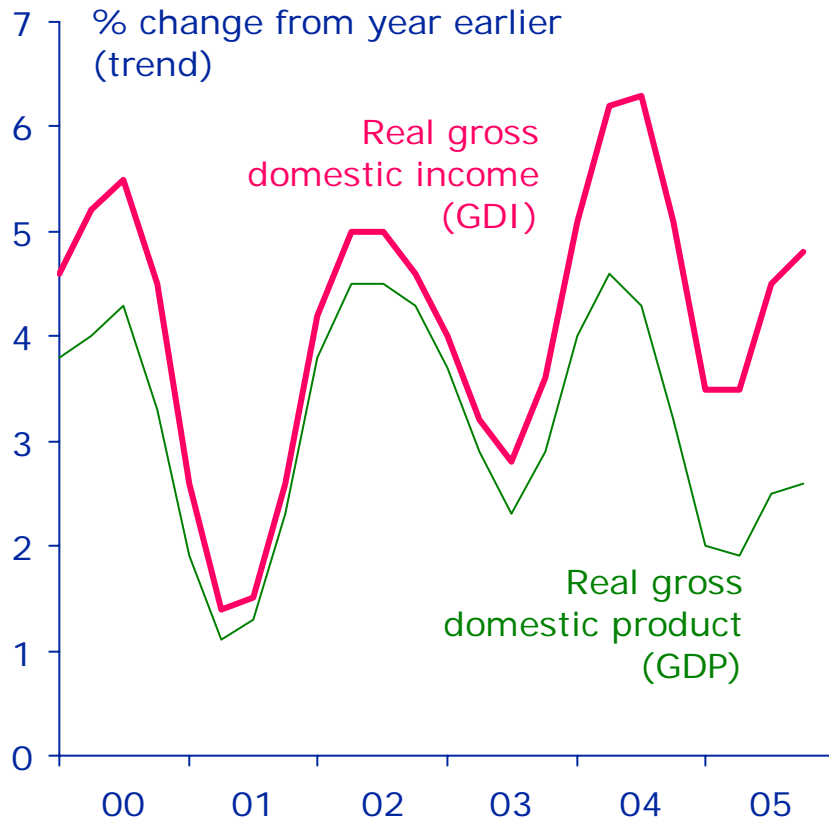
Ratio of Australian export prices to import prices



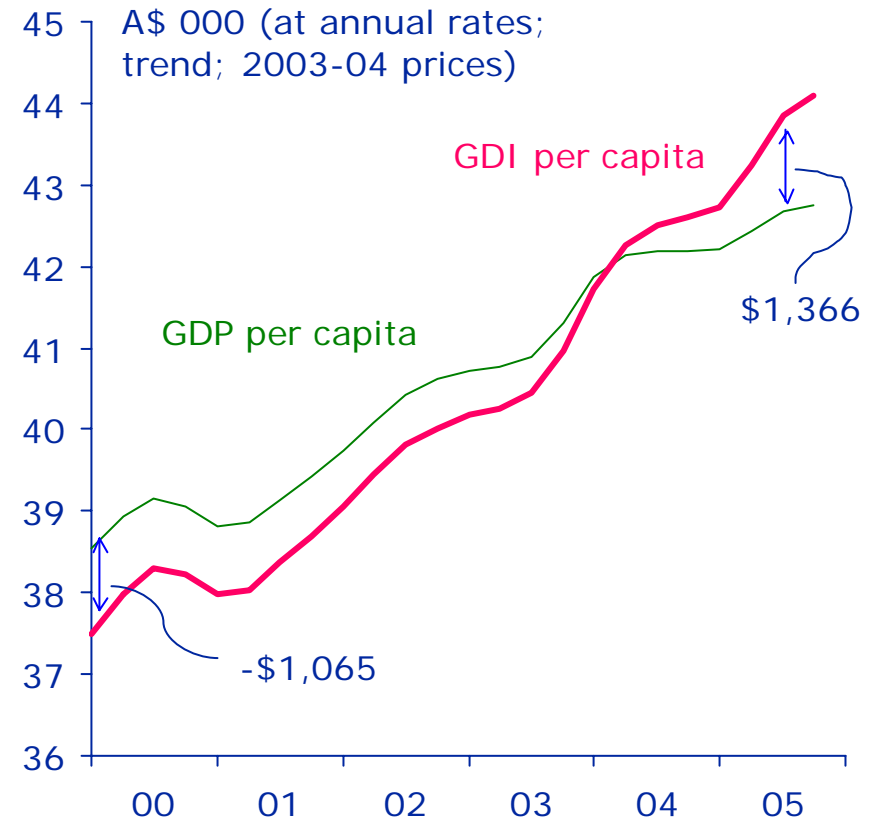
Sources: Australian Bureau of Statistics; US Bureau of Economic Analysis; Economics@ANZ.

'Terms of trade' gains since 1999 have been worth \$2,430pa to each Australian, on average

Real gross domestic product and income



Real gross domestic product and income per capita



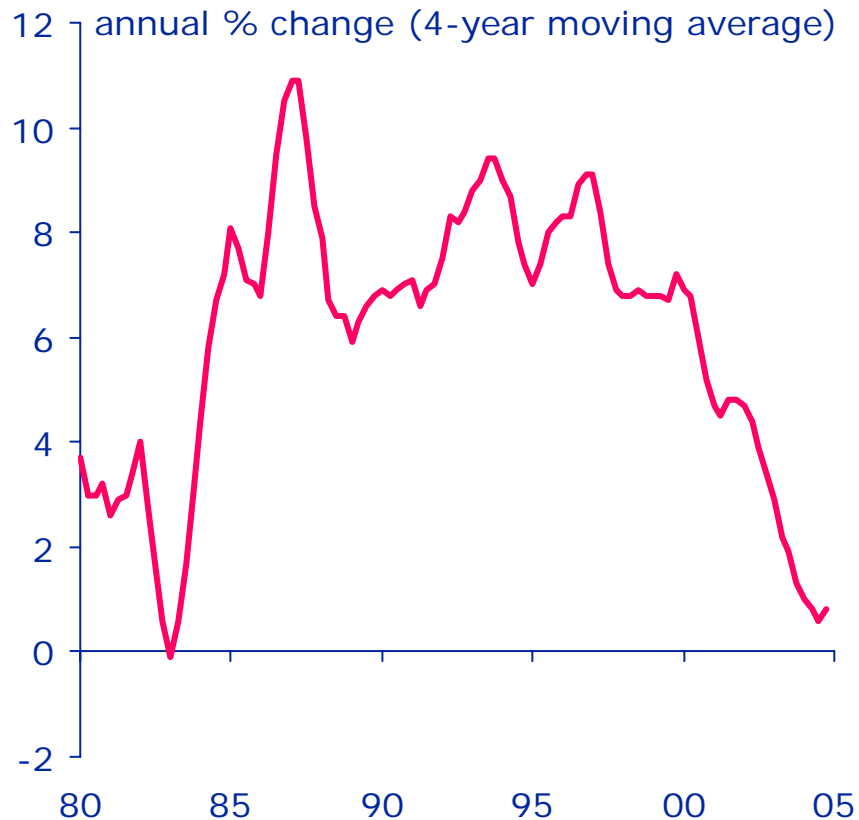
Note: Gross domestic income (GDI) is GDP adjusted for changes in the terms of trade (ratio of export to import prices).

Sources: ABS; Economics@ANZ.

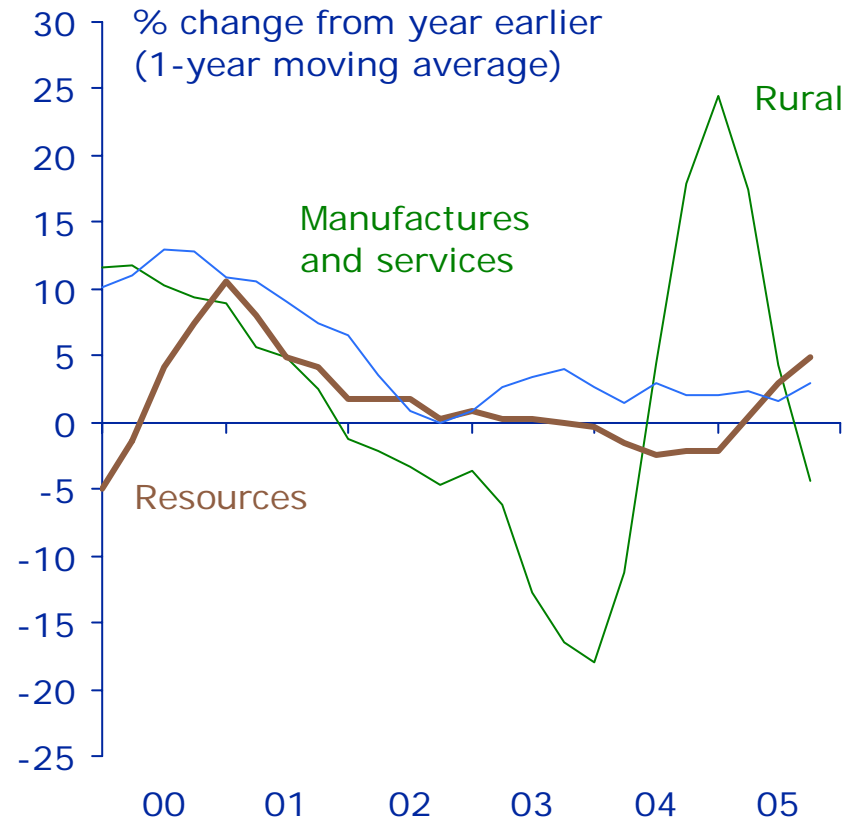
However growth in the volume of exports during this period has been very poor

Volume of Australian exports

Total



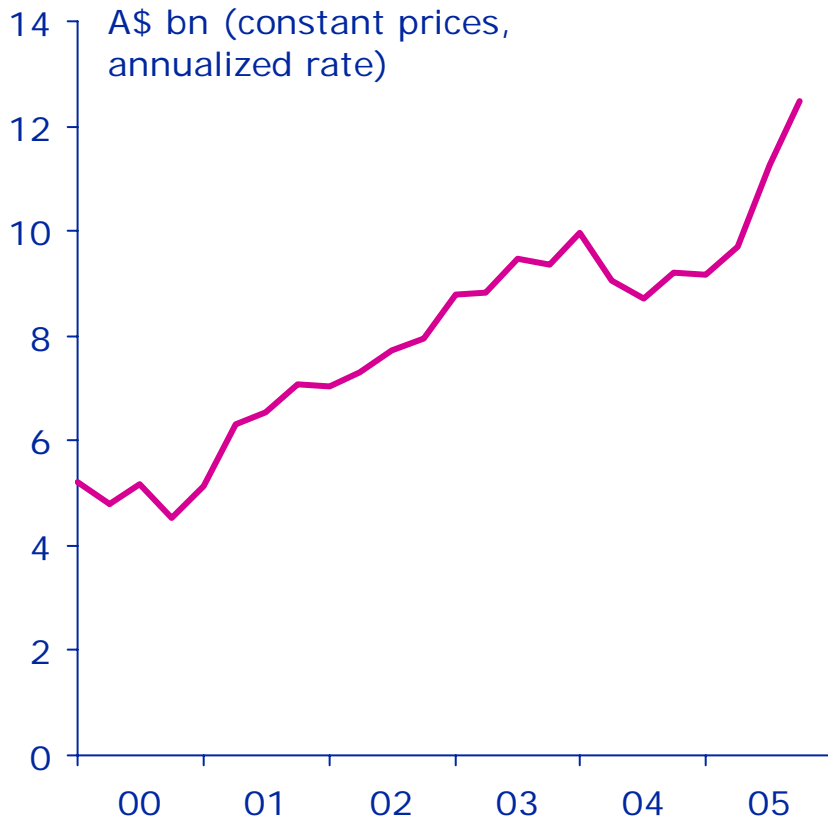
By major category



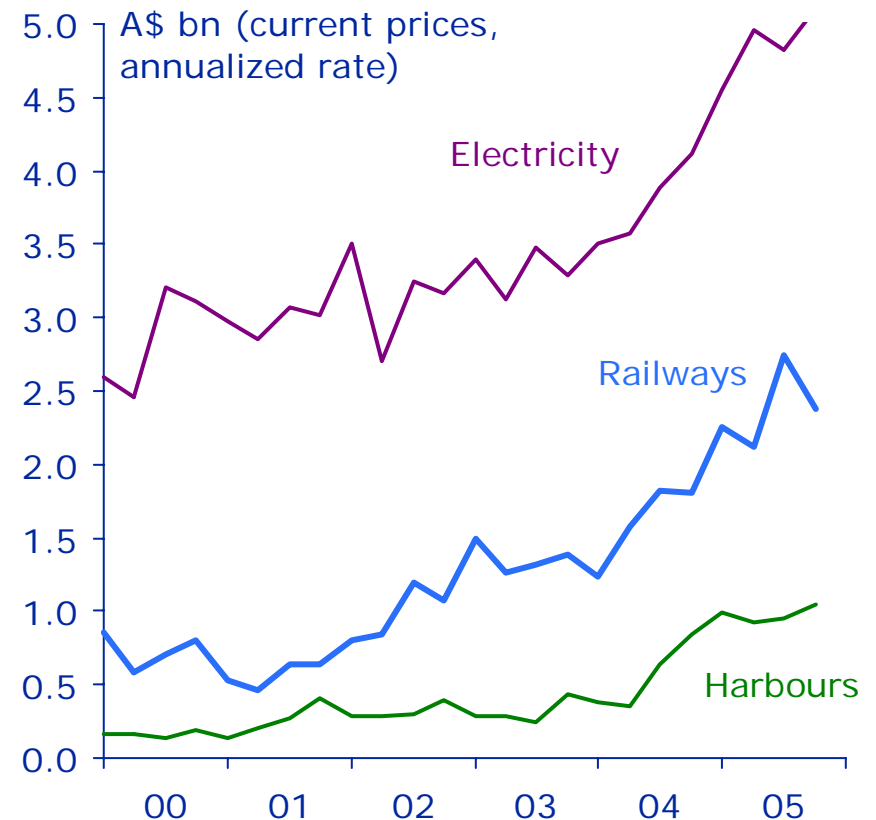
Sources: ABS; Economics@ANZ.

Investment to lift resources export capacity is now in full swing

Capital expenditure by the mining industry



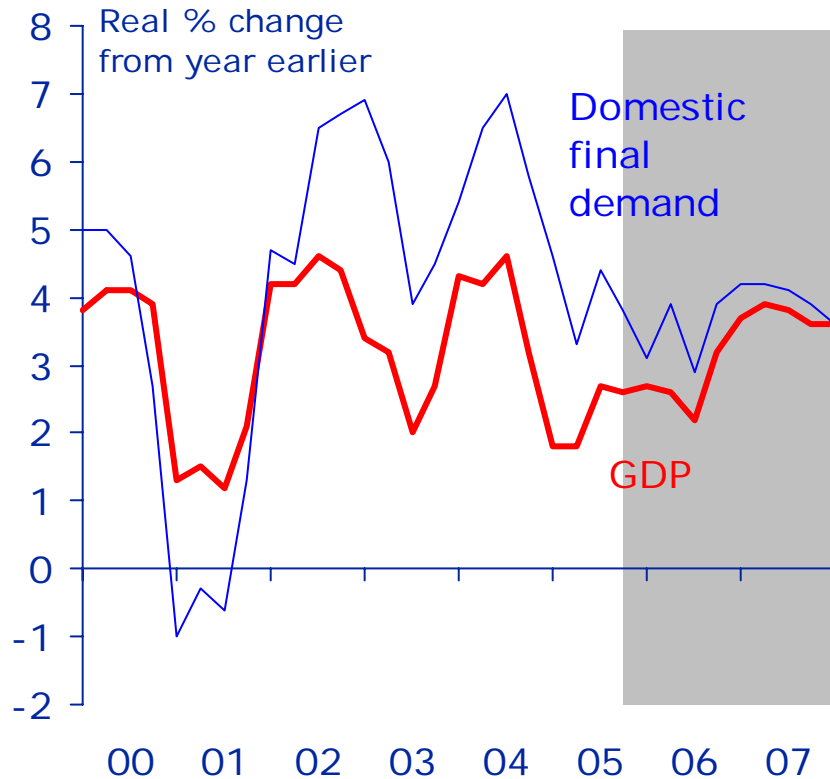
Export-oriented infrastructure investment



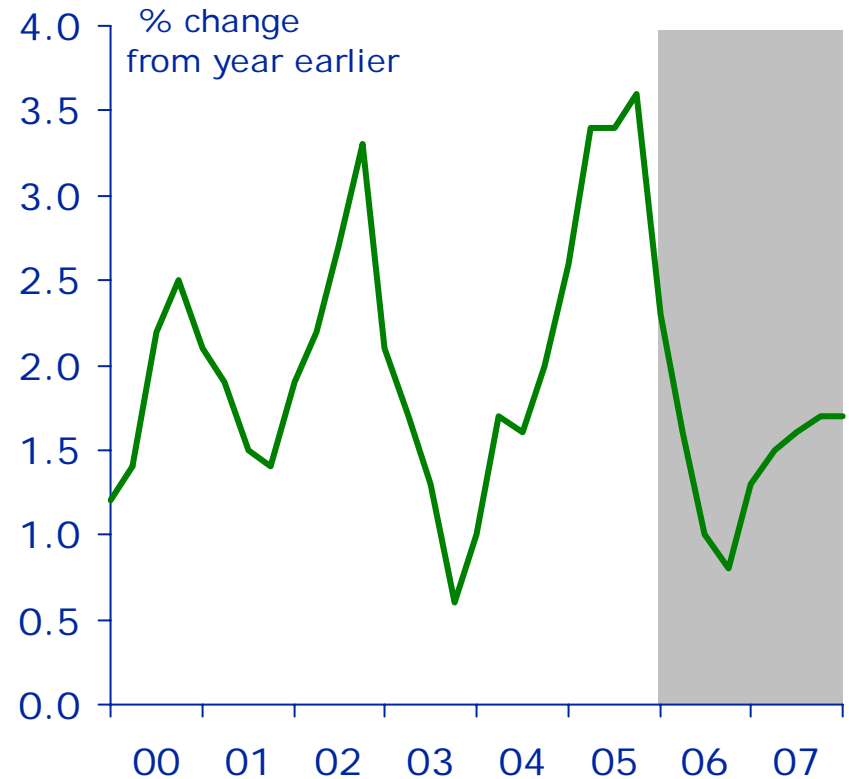
Sources: ABS; Economics@ANZ.

After a sluggish first half, the economy will pick up in the second half of 2006 and into 2007 ...

Real domestic spending and output



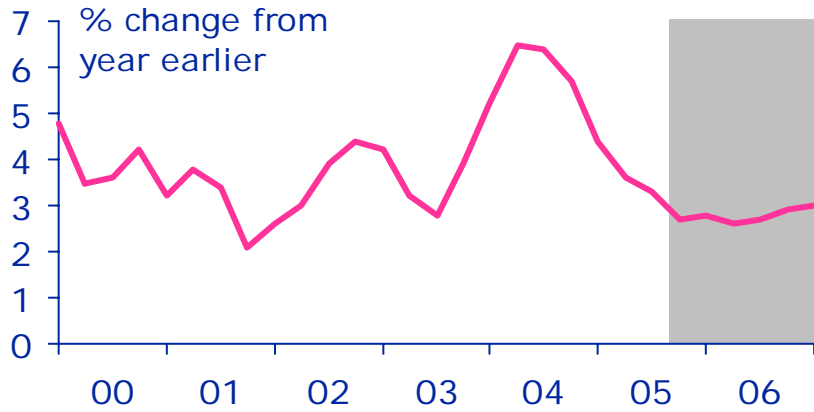
Employment



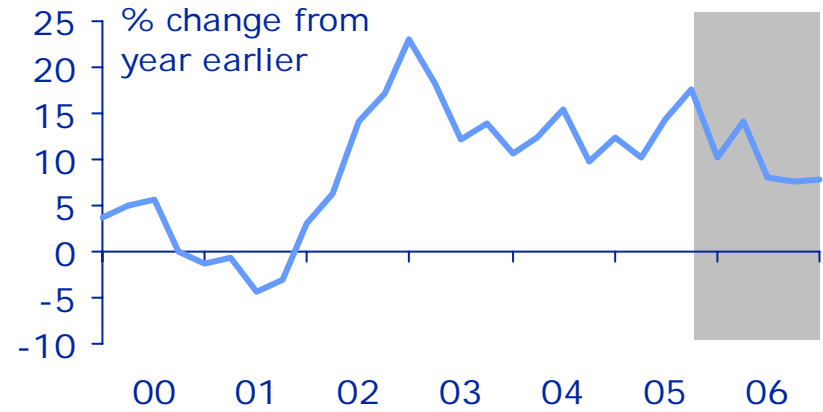
Source: Australian Bureau of Statistics;
Economics@ANZ forecasts (shaded areas).

... but the 'mix' of Australian economic growth will be different from the first half of this decade

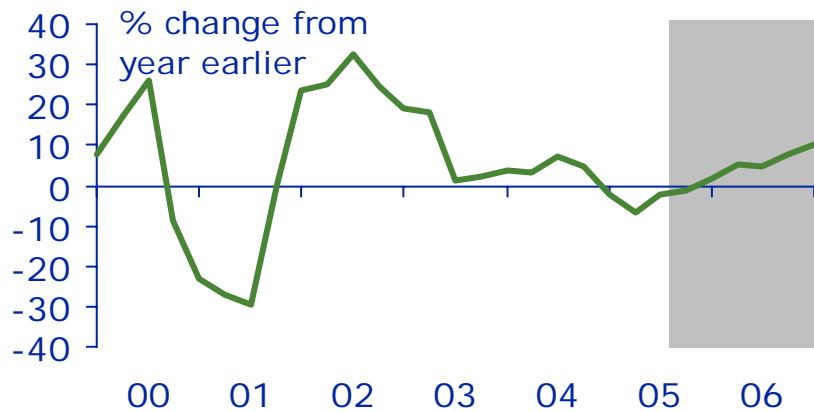
Consumer spending



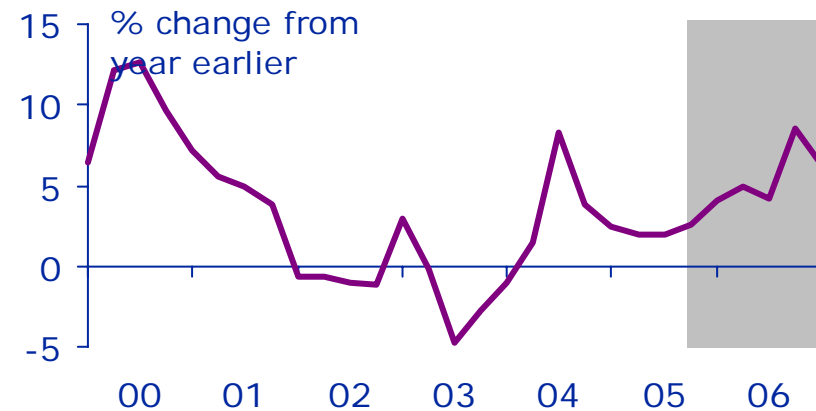
Business investment



Dwelling investment



Exports

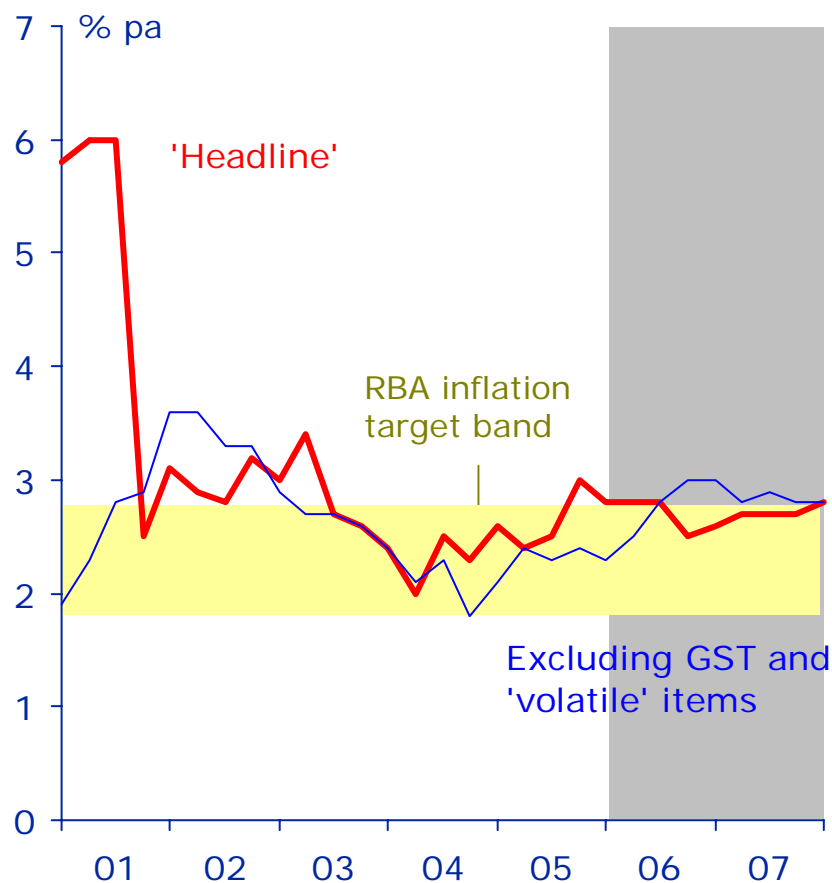


Note: shaded areas denote forecasts.

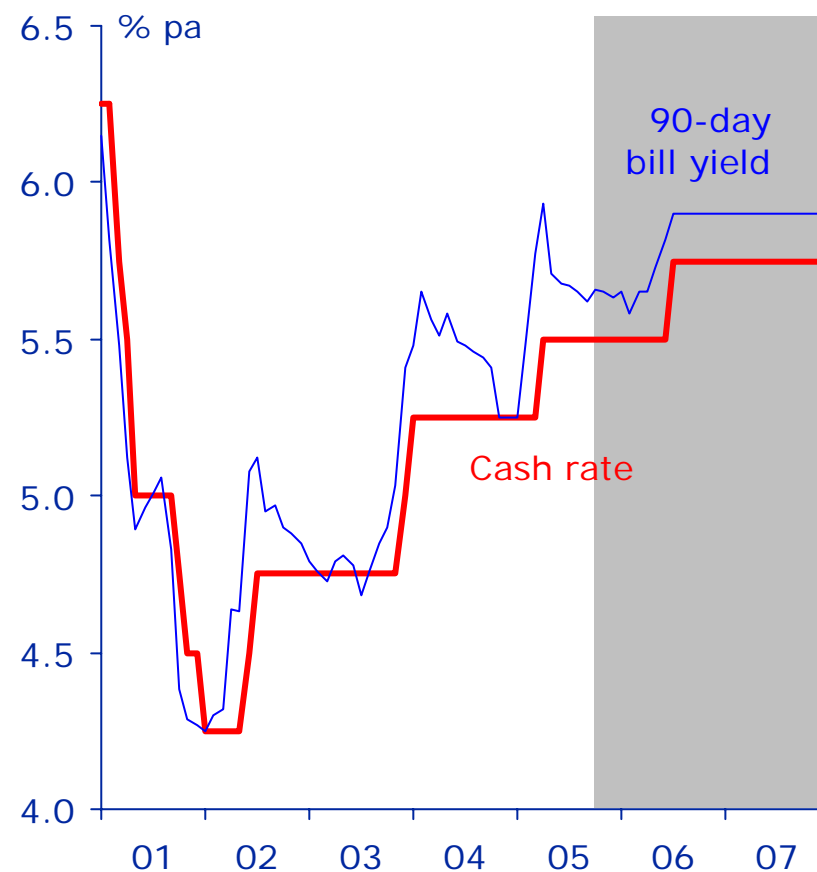
Sources: ABS; Economics@ANZ

With core inflation likely to keep rising the RBA will probably raise the cash rate again this year

Inflation



Interest rates



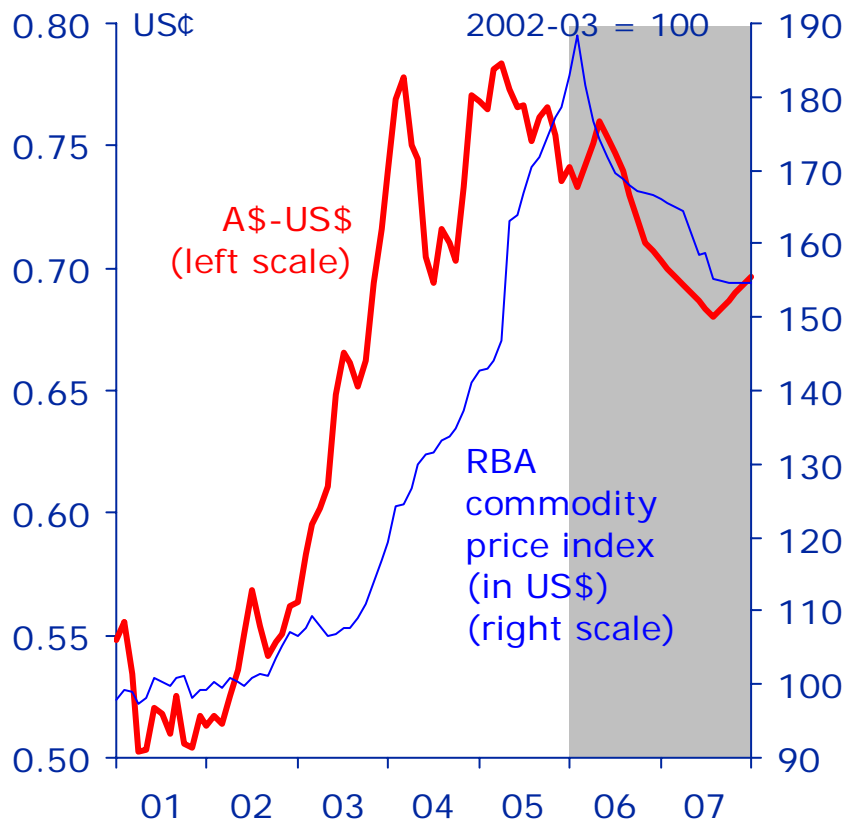
Shaded areas denote forecasts.

Sources: ABS; RBA; Economics@ANZ.

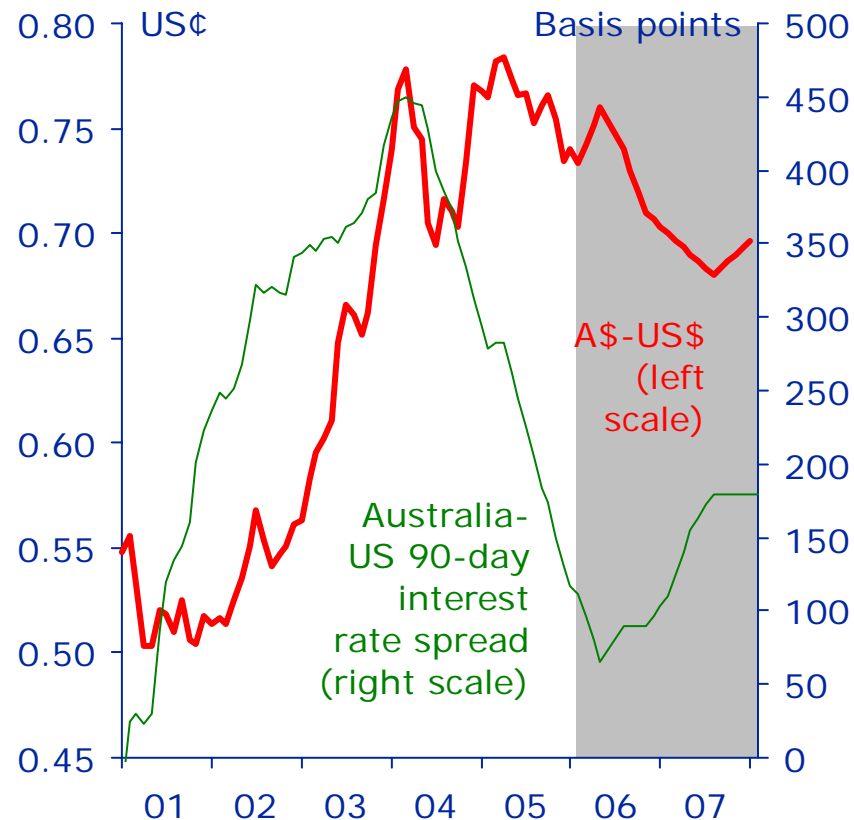
Easing commodity prices and narrower interest rate spread will see the A\$ decline through 2006

Economic influences on the value of the A\$

Commodity prices



Interest rate spreads

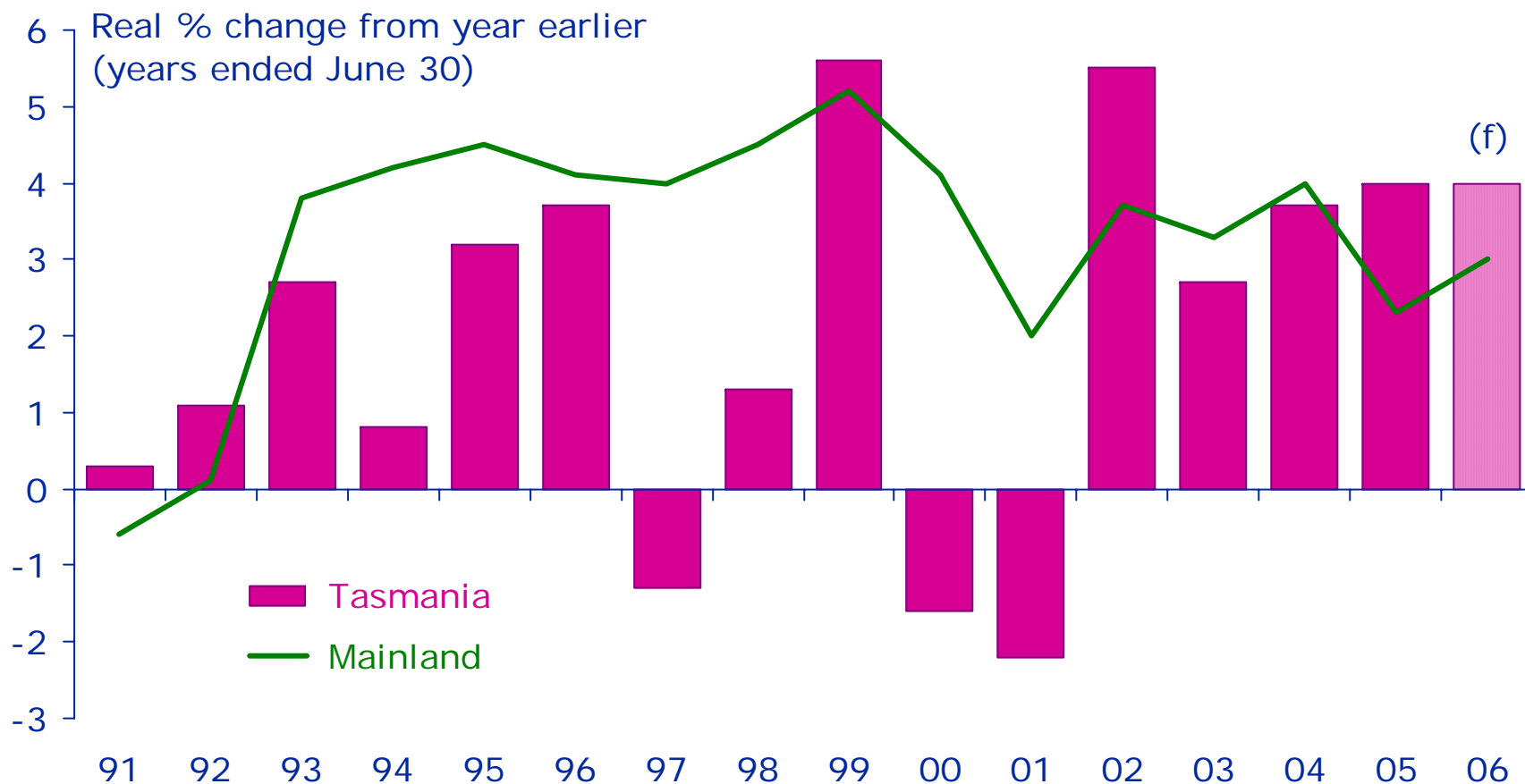


Shaded areas denote forecasts.

Sources: Datastream; Reserve Bank of Australia.

Tasmania's economy grew faster than the mainland's in 2004-05 and may do again in 2005-06

Growth in real gross State product

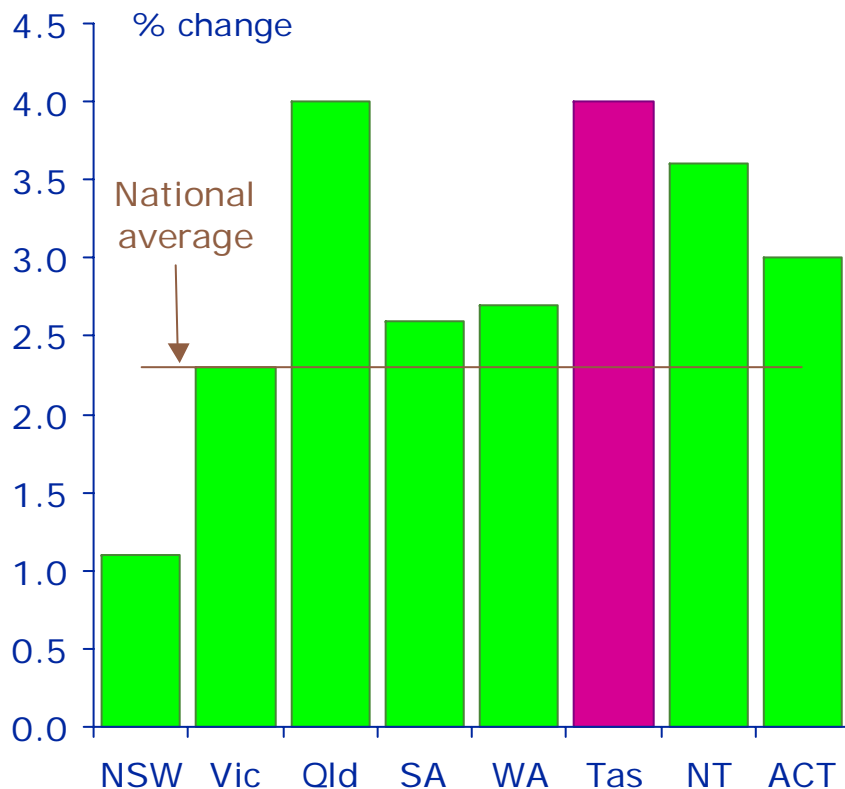


(f) State Treasury forecast of growth in 'underlying State economic activity'.

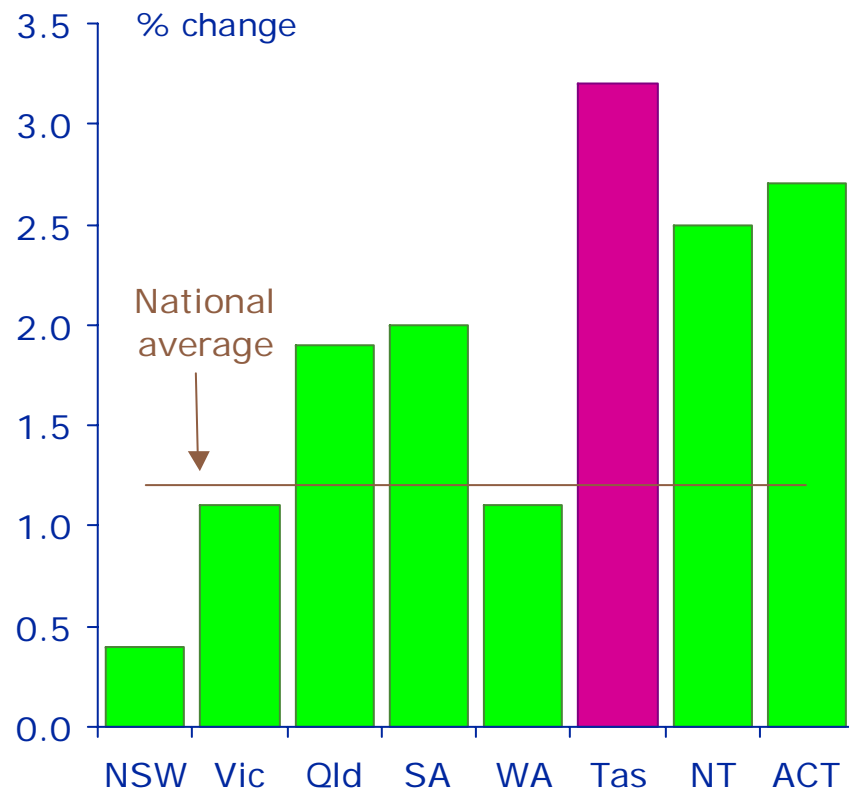
Sources: ABS State Accounts (5220.0) 2004-05; State Treasury Mid-Year Financial Report; Economics@ANZ

Tasmania matched Queensland as the fastest-growing State - and beat it in per capita terms

Real GSP growth
2004-05



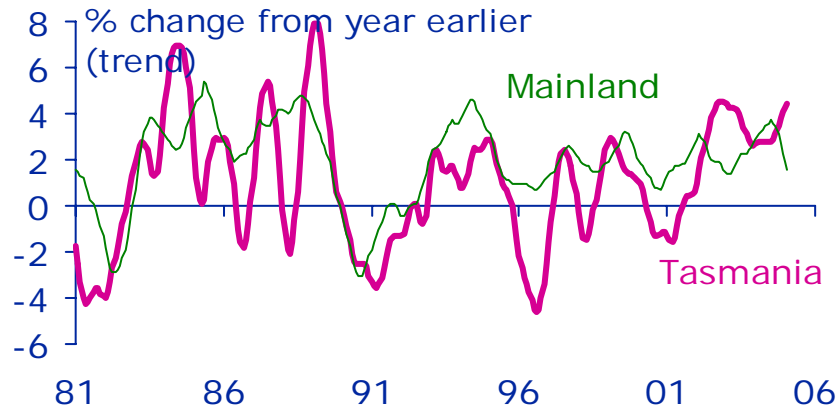
Real per capita GSP growth
2004-05



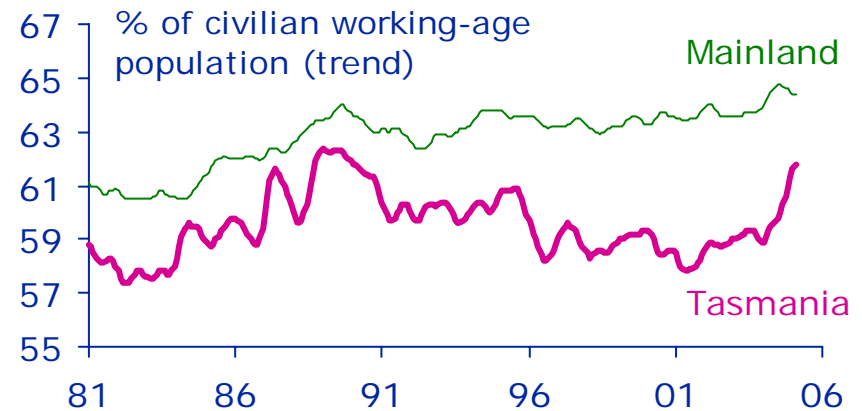
Sources: ABS State Accounts (5220.0) 2004-05;
Economics@ANZ

The improvement in economic growth is (broadly) mirrored in improving labour market indicators

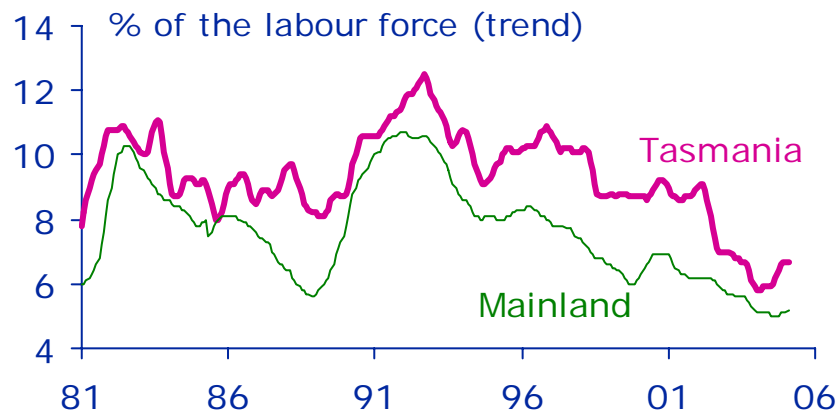
Employment growth



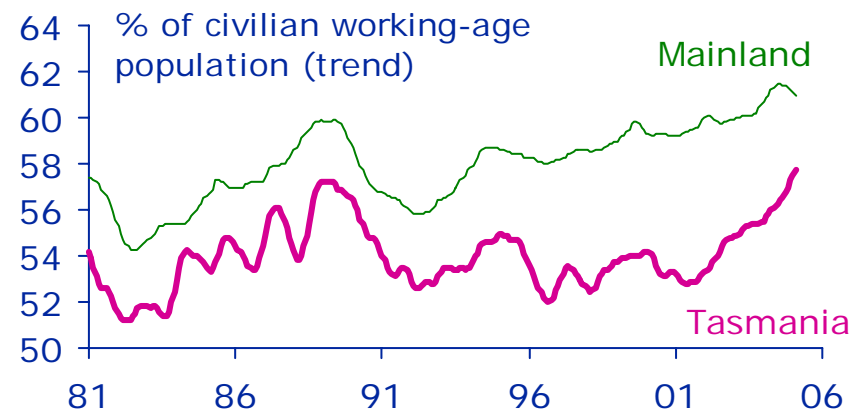
Participation rate



Unemployment rate



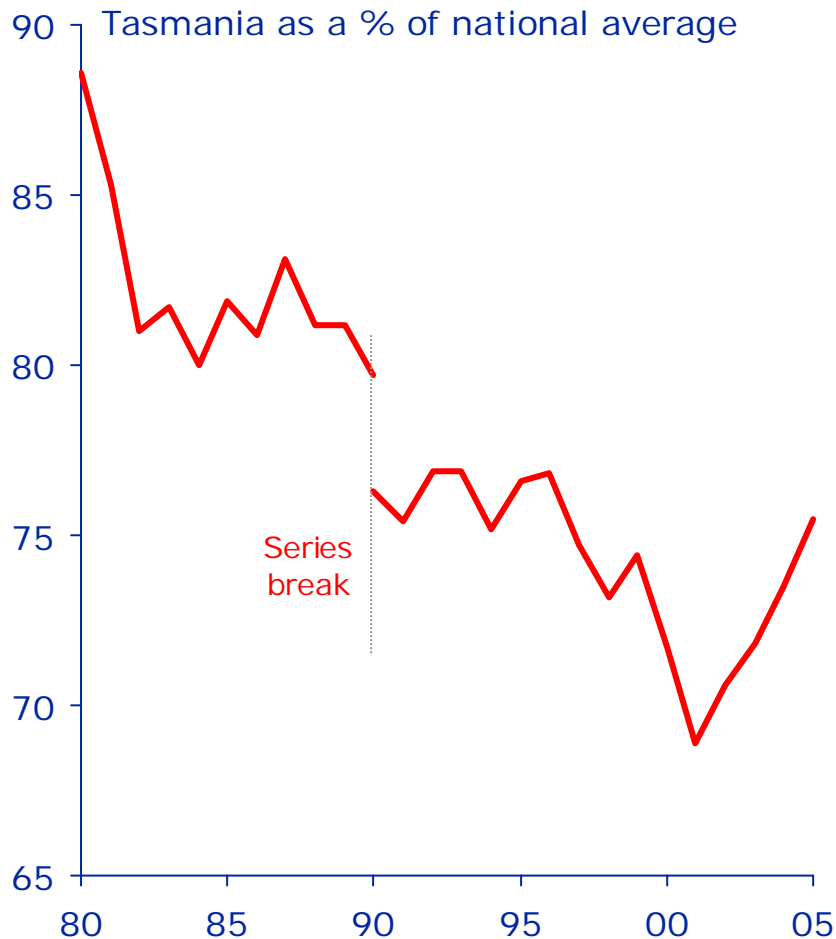
Employment-population ratio



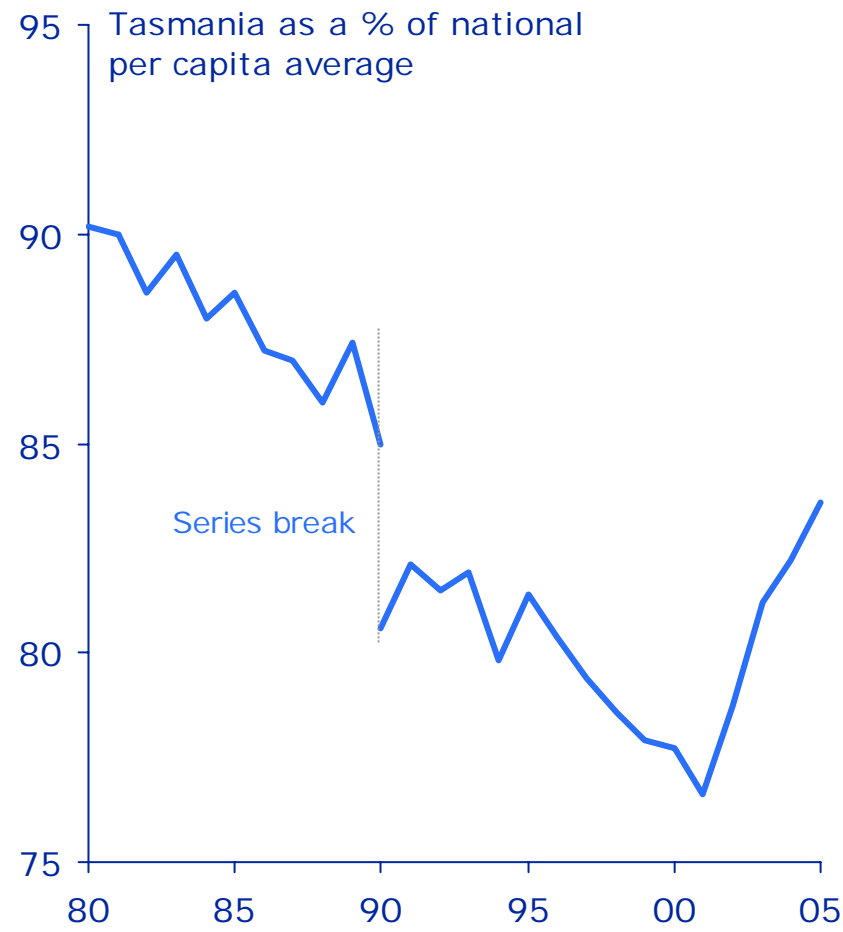
Sources: ABS *The Labour Force* (6202.0);
Economics@ANZ

Tasmania's position relative to the mainland, though still low, has improved significantly

Per capita State product



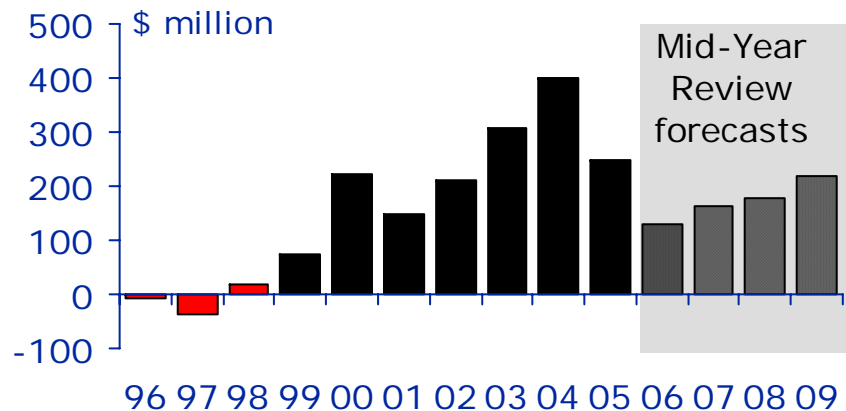
Household disposable income



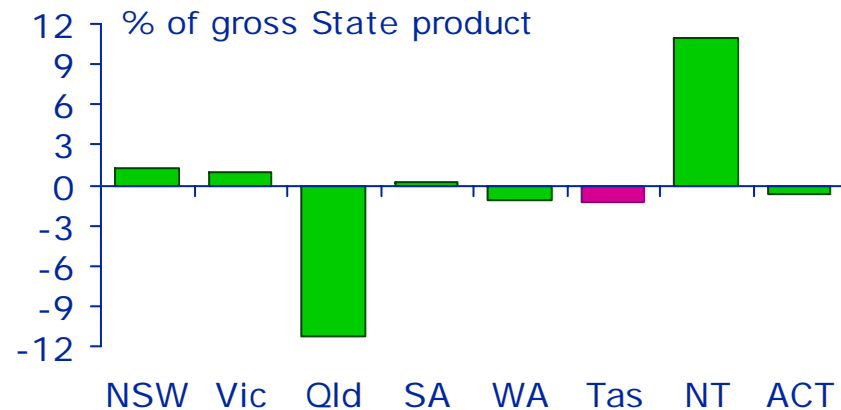
Sources: ABS State Accounts (5220.0) 2004-05;
Economics@ANZ

The Tasmanian Government is now in a very strong financial position

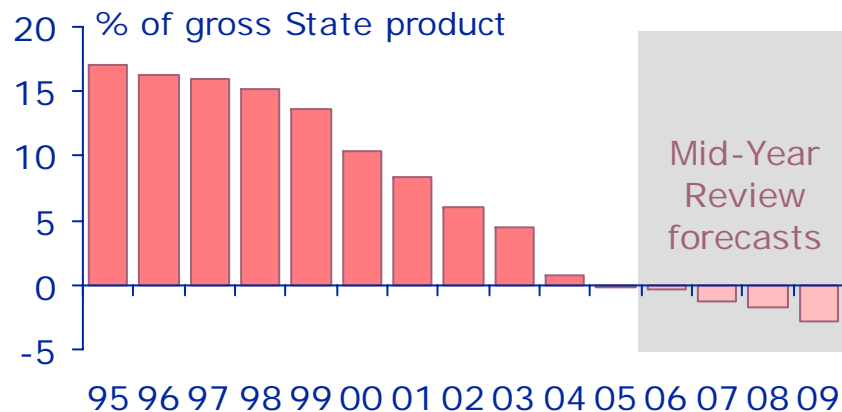
State budget cash balance*



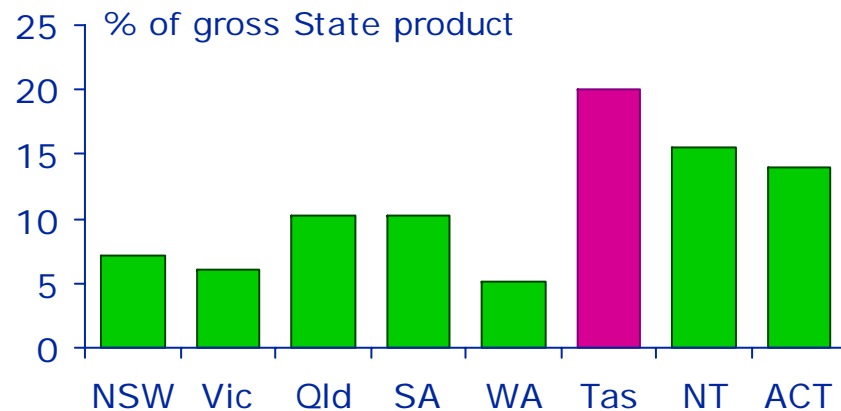
State net debt *, 30 June 2006



State government net debt*



Unfunded super*, 30 June 2006



*General government sector. Sources: Tasmanian and interstate Mid-Year Reviews; Economics@ANZ.

Summary

- Growth in the world economy is increasingly being driven by the developing economies, not the industrialized ones
 - emerging economies can continue to grow at rapid rates for a number of years yet
 - emerging economies are largely responsible for the combination of high commodity prices, low inflation and low long-term rates
- The biggest risk to the global economy stems from the shift in surpluses from Asia to oil producers
 - oil producers may be less likely to re-cycle their surpluses back to the US as willingly as Asian countries have done
- The drivers of growth in the Australian economy are changing
 - away from debt-funded household spending
 - towards capital investment and exports
- The Australian economy is likely to continue to operate at close to 'full capacity'
 - which means the risks to inflation are tilted to the upside
 - and so are the risks to interest rates
- The A\$ is likely to decline some more during 2006
 - as commodity prices come off their peak rates
- The Tasmanian economy is doing very well
 - forthcoming election will (hopefully) be about managing and sustaining prosperity (rather than coping with adversity)

Summary of the economic outlook for Australia

	2004	2005	2006	2007
Real GDP growth (%)	3.5	2½	3	3½
Employment growth (%)	2.1	3.2	1¼	1½
Unemployment rate (%) ^(a)	5.2	5.2	5¼	5¼
CPI inflation (%) ^(b)	2.6	2.8	2¾	2¾
Current account deficit (\$bn)	55	56	60	66
Current account deficit (% GDP)	6.3	6	6	6¼
RBA cash rate (%) ^(a)	5.25	5.50	5.75	5.75
90-day bill rate (%) ^(a)	5.43	5.63	5.90	5.90
Standard variable mortgage rate	7.07	7.32	7.57	7.57
A\$ - US\$ ^(a)	0.77	0.74	0.70	0.70

(a) December (b) Year to December quarter; all other forecasts are year-average