

1.3 STATEMENT OF ECONOMIC AND OTHER ASSUMPTIONS

Economic Assumptions

The ACT economy is expected to grow at a slower rate than the national economy in 2003-04. Looking forward, the ACT economy will continue to record solid growth but at rates slightly lower than for the national economy.

The economic forecasts underpinning the 2004–05 Budget are summarised below.

Economic Forecasts

	2002–03	2003–04	2004–05	2005–06	2006–07	2007–08
	(Actual)	(Forecast)	(Forecast)	(Forecast)	(Forecast)	(Planning)
	(Average annual growth)					
	Percentage change on previous year ^a					
Gross State Product	2.9	2.7	3.0	3.0	2.9	2.9
Gross Domestic Product ^b	2.8	3.75	3.5	3.5	3.5	3.5 ^c
Employment Growth	2.9	0.7	1.0	1.2	1.0	1.0
Consumer Price Index ^b	2.6	2.25	2.0	2.5	2.5	2.5
State Final Demand	4.8	2.6	2.6	2.9	2.8	2.8
Interest Rates ^d	4.75	5.0	5.5	5.5	5.5	5.5
Population ^e	0.4	0.9	0.9	0.9	0.9	0.9

- (a) Based on seasonally adjusted and original data currently available, with financial data expressed in real terms. Percentage changes are expressed in year average or year total terms unless otherwise indicated.
- (b) Commonwealth Treasury estimates included in the Mid-Year Economic and Fiscal Outlook, December 2003.
- (c) ACT Treasury planning assumption.
- (d) Reserve Bank of Australia, average cash rate target. The cash rate is the rate charged on overnight loans between financial intermediaries. It has a powerful influence on other interest rates and forms the base on which the structure of interest rates in the economy is built.
- (e) As at 30 June each year.

State Final Demand (SFD) for 2003–04 is now expected to grow 2.6%, slightly below the 2.9% forecast in last year's Budget, primarily driven by lower than expected growth in household consumption largely due to interest rate increases, that in turn reflects weaker than expected year-to-date growth in employment.

Looking forward, growth in SFD will initially be steady as a slight rise in Commonwealth government outlays in real terms is offset by slower growth in household consumption and a pause in investment growth. In the longer term, a slight acceleration is forecast in the rate of growth of SFD as slower growth in Commonwealth government outlays (mid-election cycle) are more than offset by increasing household consumption and a return to a more normal pattern of investment growth.

GSP is forecast to grow 2.7% in 2003–04, down on the 3.1% forecast in the 2003-04 Budget. The primary cause for the downgraded forecast for GSP is lower than expected employment growth during 2003-04. In part, this difficulty may reflect strong national jobs growth and a consequent difficulty in attracting interstate migrants to the ACT.

GSP growth will be supported by business profits. In line with business expectations, the prospects for business profits in the ACT remain sound.

Price movements in Canberra closely follow national trends. The national outlook is for inflation to continue to ease, with rates of 2.25% and 2% forecast for 2003–04 and 2004–05, respectively. The inflation forecast for the out-years is 2.5%, i.e., the mid-point of the Reserve Bank of Australia's target range of 2 to 3%.

Further detail on the Territory's economic conditions is available in Chapter 4.1.

Other Assumptions

Employee Wage Negotiations

Public sector wages growth can have a material impact on Budget estimates. Salary and wages consist of approximately 33% of 2004-05 expenses.

The Budget and forward estimate reflects the cost of wages for those employment categories where negotiations have been either finalised or are sufficiently advanced to quantify the value. This includes nurses, clerical/administrative, teachers (stage 1), firefighters, bus drivers, police and visiting medical officers.

An expenditure provision has been made for planning purposes where negotiations are not materially progressed.

Treasurer's Advance

The forward year Budget estimates include an assumption that additional expenditure of approximately 1% of total appropriations will be made in every year as Treasurer's Advance.

Capacity for future capital works programs

The forward year Budget estimates include an assumption that a new investment in capital works of \$80m will occur in each year beyond the Budget year. This is a prudent provision for future years' capital infrastructure maintenance and growth.

Revenue Assumptions

The estimates of GST revenue from the Commonwealth are based on the Commonwealth Treasurer's *Statement of Estimated Payments* of 26 March 2004. The SPP estimates are based on information provided by the Commonwealth Department of Finance and Administration, and reflect the 2003-04 Mid Year Economic and Financial Outlook.

Taxes, fees and fines, and other own source revenues are based on the economic assumptions discussed above, with the exception of revenues related to housing market activity. These include conveyances and revenue from land sales.

The assumptions and outlook underpinning the conveyance revenue are for an easing of the market in 2003-04 and 2004-05 from the high levels of previous years. In 2004-05 the activity is assumed to drop by 4.5% over the 2003-04 level, with a modest increase of 2.3% across the forward estimates. Prices are assumed to increase slightly above the CPI across the forward years.