4.1 ECONOMIC CONDITIONS

Overview

The ACT economy is expected to grow by 2.0% in 2004-05, around 1.0 percentage point lower than the forecast national economic growth rate of 3.0%. In part, the ACT's slower growth reflects its relative lack of export orientated agriculture and resource sectors. Nationally, the economy is benefiting from higher export prices and increasing company profits. The rise in company profits is expected to translate into increased business investment, particularly in the resources sector, given the need to increase capacity in that sector in order to satisfy global demand.

The strong global economic growth in 2004 was geographically the most broad-based since the current period of expansion began in 2001. Growth in Australia's major trading partners reached 4.3% through the year to the September quarter 2004, the highest rate of growth since the March quarter 2001.

The International Monetary Fund projects global growth in 2005 of 4.3%, down from an estimated 5.1% in 2004. Growth is expected to remain strong in 2006 (4.4%). The main threat to the forecast bright outlook for the world economy is the possibility of oil price shocks.

The **Australian economy** grew by 3.2% in the year to the December quarter 2004, a solid rate of growth but around 1.0 percentage point lower than the growth recorded by Australia's major trading partners. Australia is enjoying its fourteenth consecutive year of economic expansion and has reached a point where there is limited spare capacity to meet increased demand. This capacity constraint is reflected in Australia's increasing current account deficit, which reached 7.1% of Gross Domestic Product in the December quarter 2004. However, the private sector investment mix is changing, with investment in dwellings easing and investment in machinery and equipment strengthening, and this change will increase Australia's capacity to meet strong world demand.

The outlook for the Australian economy remains positive, with a forecast of 3.0% growth in real Gross Domestic Product (GDP) this financial year, accelerating to 3.25% in 2005-06 and 3.5% in 2006-07. The housing market remained stronger than expected through the first half of 2004. Housing construction should record modest growth in 2004-05, and growth in domestic demand while revised up to 4.5%, is set to ease on the 2003-04 rate of 5.6%. Export growth in 2004-05 is expected to be solid (4.0%) although lower than earlier forecasts (8.0%). Contributing to the lower export forecasts for 2004-05 is the late arrival of spring rains that reduced forecast grain exports, and emerging capacity constraints in the resources sector.

Although the **ACT economy** is expecting positive conditions throughout this period, the absence of export oriented agriculture, mining and manufacturing sectors is likely to result in ACT growth lagging national growth in 2005-06.

The outlook for **private consumption expenditure** in the ACT is optimistic. While the Reserve Bank of Australia (RBA) raised the cash interest rate target by 0.25 percentage points to 5.5% in March 2005, this was the first rise in 15 months and the level of interest rates remains low by historical standards. Household wealth has increased due to strong residential property price increases, and labour income is expected to show solid growth reflecting forecast increases in employment and real wages. The effect of rising labour income on private consumption should be partly offset by slower growth in housing related consumption and declining rates of credit growth.

The value of **business investment** fell slightly in 2003-04 but this fall was largely a reflection of the very strong growth recorded in 2001-02 and 2002-03. Business investment should return to positive growth in 2004-05. The Sensis® *Business Index* for February 2005 shows a net balance of 73% of ACT small to medium businesses are confident about business prospects over the next 12 months. This result is consistent with the Hudson Report for April 2005 - June 2005. The Hudson survey shows ACT employers have strong hiring intentions for the remainder of 2004-05, with a net 40.1% expecting to increase staffing levels - higher than the national average of 32.6%.

The interest rate rises in November and December 2003 were sufficient to mark the end of the national housing boom. In the ACT, **residential property turnover** slowed markedly in the first half of 2004 while prices continued to rise in real terms, albeit at rates much slower than during the height of the boom. Growth in ACT prices slowed in the second half of 2004 while turnover is showing signs of settling down to longer-run average levels.

Commonwealth government expenditure is a key determinate of the level of economic activity in the ACT. Real growth in Commonwealth outlays is forecast to accelerate to 4.6% in 2004-05. If realised, this will be the strongest growth in real Commonwealth outlays since the 5.1% growth recorded in 1998-99. However, the ACT's share of Commonwealth Government activity has declined since the mid-1990s. For example, in the five years to 2003-04 the annual average real growth in Commonwealth Government consumption expenditure nationally has been 3.7%, whereas growth in Commonwealth consumption in the ACT has been only 2.5%.

Following an expected 1.5% growth in **employment** in 2004-05, the employment forecasts for 2005-06 and 2006-07 are constrained to 1.0% growth by the continuation of the tight labour market nationally and a forecast slow-down in the rate of growth in real Commonwealth outlays. At the national level, employment is forecast to grow at 1.75% in 2005-06 - an easing from the 2.0% rate in 2004-05 but a rate still above the growth in the working age population. This will contribute to further tightness in the national and local labour markets.

Risks to ACT economic forecasts are low. The ACT's relative absence of export orientated agriculture, mining and manufacturing sectors means that it is largely insulated from the down side risk of lower than expected world growth.

The key risk to the ACT economy is an "over-heated" national economy that would result in inflationary pressures and contribute to interest rate increases higher than forecast. If this were to occur it would impact adversely on private consumption and investment in the ACT, particularly given the build-up in household debt in recent years.

The Outlook for the ACT Economy

Table 4.1.1
Economic Forecasts

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	(Actual)	(Forecast)	(Forecast)	(Forecast)	(Forecast)	(Planning)
			(Average annual growth)			
			Percentage change on previous year[a]			
Gross State Product	1.5	2.0	1.8	1.5	2.3	2.5
Gross Domestic Product[b]	3.8	3.0	3.25	3.5	3.5	3.5[c]
Employment Growth	0.0	1.5	1.0	1.0	1.5	1.5
Consumer Price Index[b]	2.9	2.25	2.25	2.5	2.5	2.5[c]
State Final Demand	3.8	3.5	3.3	3.0	3.8	4.1
Interest Rates[d]	5.06	5.35	5.75	5.75	5.75	5.75
Population[e]	0.2	0.5	0.8	0.8	0.8	0.7

(a) Based on seasonally adjusted or original data, with economic data expressed in real terms. Percentage changes are expressed in year average or year total terms unless otherwise indicated.
(b) Australian Treasury estimates included in the Mid-Year Economic and Fiscal Outlook, December 2004.
(c) ACT Treasury planning assumption.
(d) Reserve Bank of Australia, average annual 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

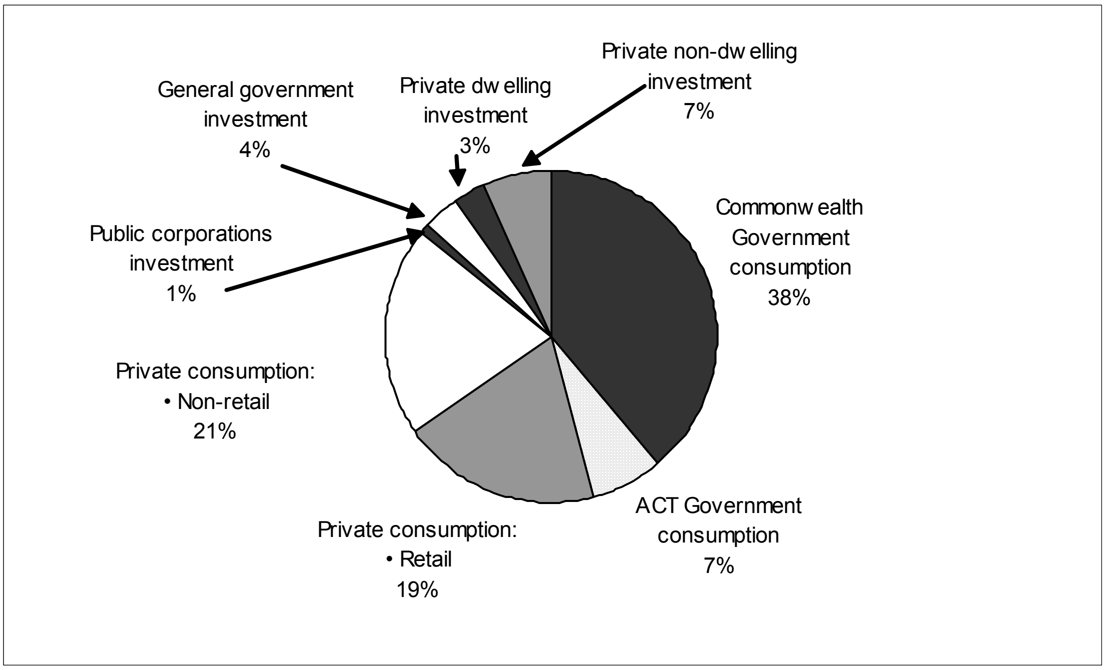
State Final Demand (SFD) represents expenditure in the ACT economy. SFD is a measure of demand rather than production and is comprised of Household Final Consumption, Government Final Consumption, and Private and Public Investment.

In 2003-04, SFD amounted to around $23 billion for the ACT. This represented approximately 2.8% of the national total. In absolute terms, this was higher than the Northern Territory and Tasmania and, in per capita terms, was the highest of all States and Territories.

Components of State Final Demand

The largest component of ACT SFD is Government Final Consumption Expenditure (Government consumption). Government consumption is current expenditure by general government bodies on services to the community such as education, health, public order and safety, public administration and defence.

Figure 4.1.1
Components of ACT State Final Demand, 2003-04



Sources: ABS Cat. No. 5220.0 and ACT Treasury estimates.

Government consumption comprises 45% of total SFD, with the major component of this being consumption by the Commonwealth (38%) and the remainder being consumption by the ACT Government (7%).

The second largest component of SFD is Household Final Consumption Expenditure (private consumption), which makes up 40% of total SFD. Private consumption measures recurrent expenditure by households and non-profit institutions serving households. Private consumption is a large aggregate covering a wide range of goods and services. Just over half of private consumption is expenditure on non-retail commodities such as utilities, transport, health and education. The remainder is expenditure on retail commodities such as food, alcohol and tobacco, furnishings and other household equipment.

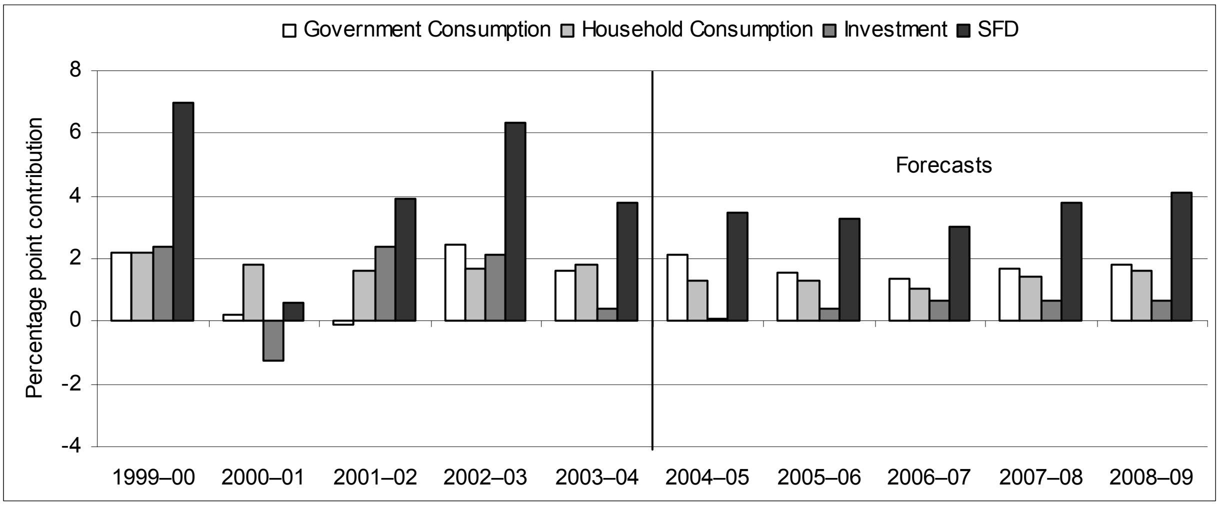
The remaining components of SFD relate to Gross Fixed Capital Formation (investment). Investment is undertaken by the private sector, the general government sector, and by public corporations. It includes expenditure on dwellings, non-dwelling construction, machinery and equipment, computer software and real estate ownership transfer costs. Notwithstanding its relatively small contribution to the level of SFD, investment is traditionally highly volatile and consequently can, at times, have a disproportionate impact on the rate of growth of SFD.

Contributions to SFD

In 2003–04, real ACT SFD grew by 3.8% - below the national average of 5.3%. The higher national growth rate reflects stronger contributions from household consumption and private investment in machinery equipment, dwellings and non-dwelling construction. However, the disparity in growth rates for these demand components was partly offset by the ACT recording relatively stronger growth in government consumption (both Commonwealth and Local) and public sector investment.

Private consumption in the ACT grew at a faster rate than public consumption in 2003-04, 4.5% and 3.5% respectively. The rate of investment growth eased to 2.9% in 2003-04 following two consecutive years of annual growth of around 20% - a rate of growth that is unsustainable in the longer-term. This slowdown largely reflects a turnaround in both dwelling investment and private business investment, from rates of over 20% in each of the previous two years, to rates of around –5% in 2003-04. The negative growth in private investment in 2003-04 was offset by strong growth in public investment (up 26%). Investment in total (i.e., private plus public) made a small positive contribution (0.4 percentage points) to the 3.8% growth in SFD during 2003-04, while private consumption contributed 1.8 percentage points and government consumption contributed 1.6 percentage points.

Figure 4.1.2
Contributions to Annual Growth in SFD, Chain volume measures



Source: ABS, Cat. No. 5220.0.

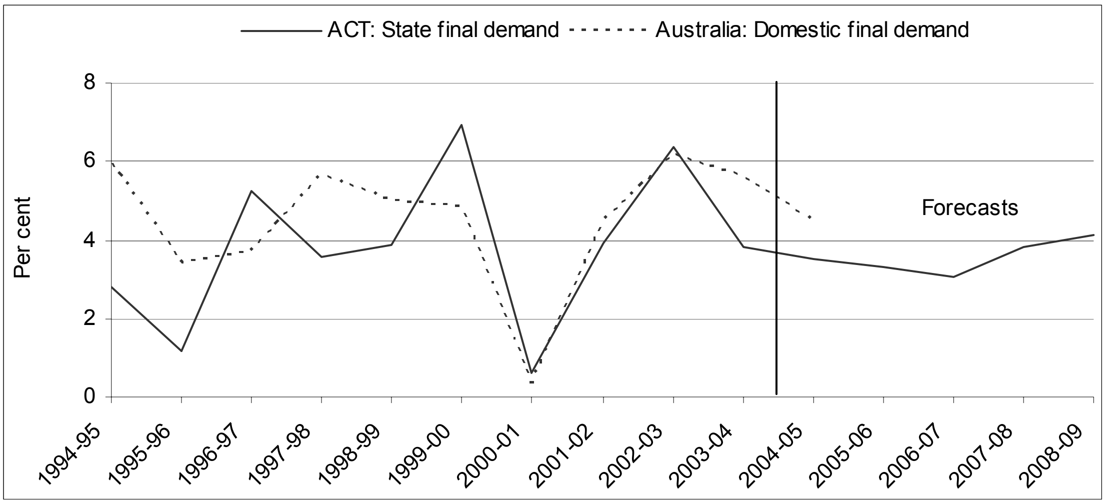
Outlook for SFD

SFD in 2004-05 is now expected to grow by 3.5%, higher than the 2.9% forecast in the 2004-05 Pre-Election Budget Update. Domestic Final Demand (DFD), the national equivalent in concept to SFD, is now forecast to grow by 4.5%, having been revised upward in the Commonwealth’s 2004-05 Mid Year Economic and Fiscal Outlook (MYEFO) from the 4.0% forecast contained in the 2004-05 Commonwealth Budget.

There are three key drivers to the forecast higher increase in SFD in 2004-05.

Firstly, private consumption is now likely to grow at around 3.3%, slightly higher than the 3.0% forecast underlying the 2004-05 Budget. This upward revision follows a higher than expected private consumption result in 2003-04 and indications that consumption by ACT households will remain high. This outlook is mainly driven by expectations of ongoing strength in the labour market that will have a positive effect on household incomes. There are signs that households are contracting their discretionary expenditure, possibly due to anticipated interest rate increases combined with high levels of personal debt. However, non-discretionary expenditure appears to be growing solidly.

Figure 4.1.3
Annual Growth in Demand, ACT and Australia, Chain volume measures



Source: ABS Cat. No. 5206.0.

Secondly, government consumption, which is predominantly Commonwealth Government expenditure, is expected to rise by 4.6% in real terms on 2003-04 levels. The 4.6% forecast for real Commonwealth outlays in the December 2004 MYEFO is up 1.0 percentage point on the 3.6% forecast contained in last year's Federal Budget.

Commonwealth Government expenditure per capita continues to be significantly higher in the ACT than in other jurisdictions, however, in recent years the rate of growth in Commonwealth expenditure in the ACT has fallen below the national average. With the current expenditure priorities of the Commonwealth Government weighted towards regions other than the ACT, this trend is likely to continue. Therefore, while the total outlays by the Commonwealth are forecast to increase by 4.6% in real terms in 2004-05, the growth in Commonwealth activity in the ACT is likely to be lower than this.

Thirdly, in real terms, private investment is expected to rebound from the decrease of 5% recorded in 2003-04 to a positive (albeit small) growth in 2004-05. The expectation of a return to positive private investment growth is consistent with The Sensis® *Business Index* for February 2005 that shows a net balance of 73% of ACT small to medium businesses are confident about business prospects over the next 12 months.

In 2005-06, growth in SFD is forecast to ease slightly to 3.3% as the real rate of growth of Commonwealth Government outlays falls from 4.6% in 2004-05 to 2.4%. Mitigating the easing in Commonwealth outlays, household consumption in the ACT is expected to remain strong as interest rates remain low by historical standards and the rate of employment remains high.

Private Investment

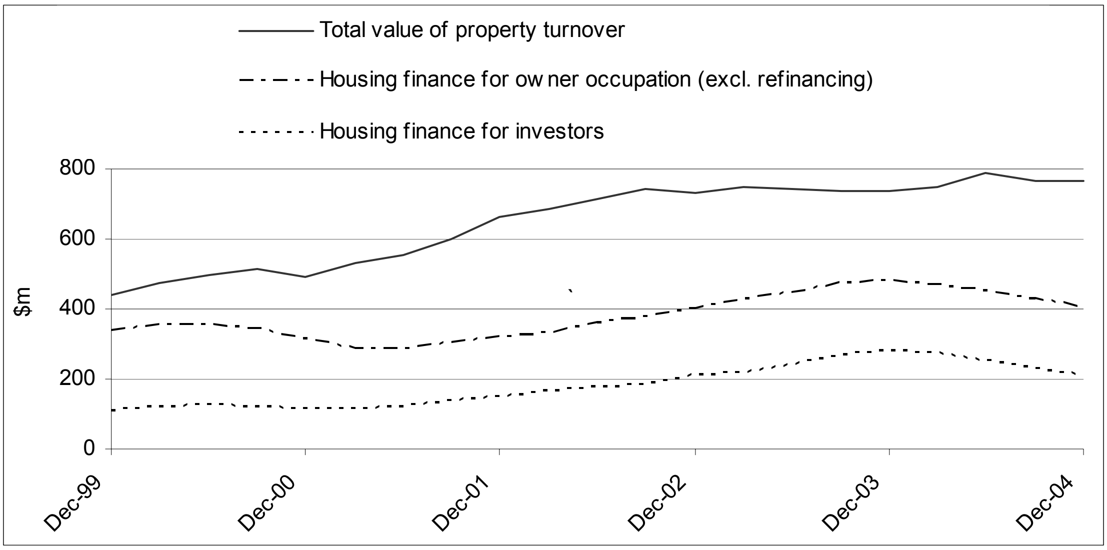
As outlined above, private investment is expected to show positive growth in 2004-05. While the housing market is cooling and investor interest is no longer so strong, there is plenty of residential construction activity in the pipeline. There is also a substantial amount of non-dwelling construction activity either underway or about to start. Business confidence is high and this confidence is expected to flow through to increased expenditure on machinery and equipment. The components of private investment are discussed in detail below.

Dwellings

Turnover, prices and vacancy rates

Consistent with experience nation-wide, the total value of property turnover in the ACT has risen strongly in the last few years to reach record levels in 2003-04. More recently, however, the total value of property turnover has begun to decline with the most recent housing finance data showing a slow-down has occurred in both the owner-occupation and investor segments of the market. These results are consistent with a national easing in housing demand.

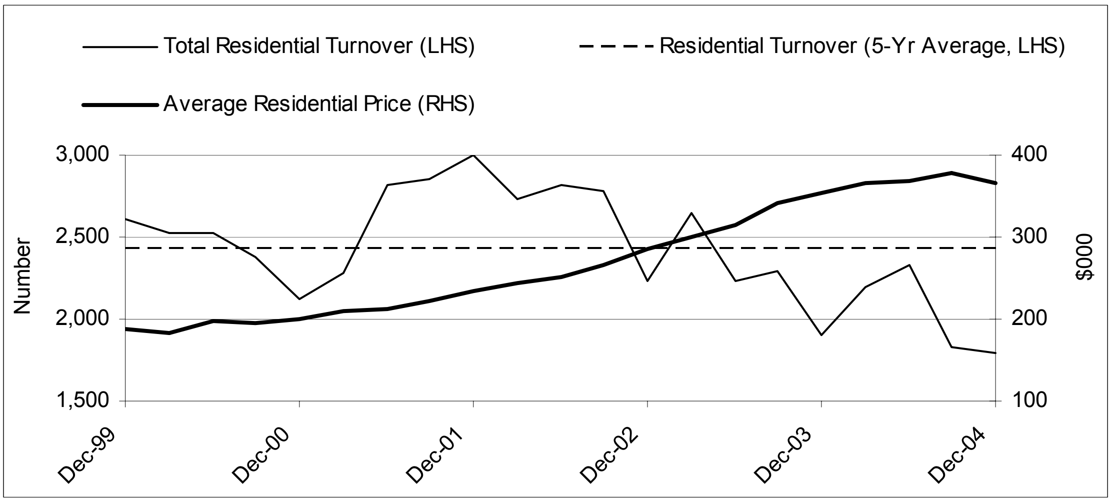
Figure 4.1.4
Value of ACT Residential Property Turnover and Housing Finance Commitments, Quarterly Original Data.



Source: ABS 5671c9 and 5609.0.

Looking forward, the expectation is for the ACT housing market to continue to remain cool with turnover returning to longer-term average rates and only modest increases in house prices in real terms. This outlook is supported by the rise in the ACT vacancy rate to 5.2% in the December quarter 2004, the highest rate since the December quarter 1995, and currently the highest rate of any capital city. Increasing vacancy rates imply reduced returns from rental income and will serve to reduce investor interest in housing. Investor interest is also likely to be dampened while the relatively strong performance of equity markets continues.

Figure 4.1.5
ACT Residential Property Turnover (Number) and Average Residential Price
Quarterly Original Data

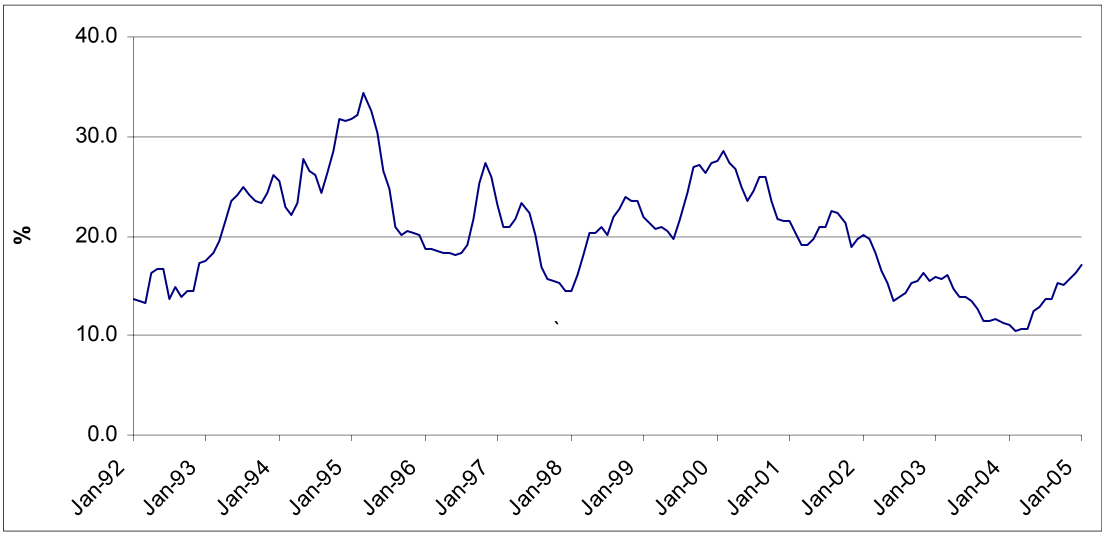


Source: ACT Planning and Land Authority

First home buyers

The combination of recent increases in housing affordability with changes to the First Home Buyer Concession Scheme (increased income threshold and property value thresholds linked to market prices and adjusted every six months) are supporting a stronger relative participation in the market by first home-owners.

Figure 4.1.6
Finance to First Home Owners as a Proportion of Total Housing Finance,
Number of Commitments, Original monthly data.



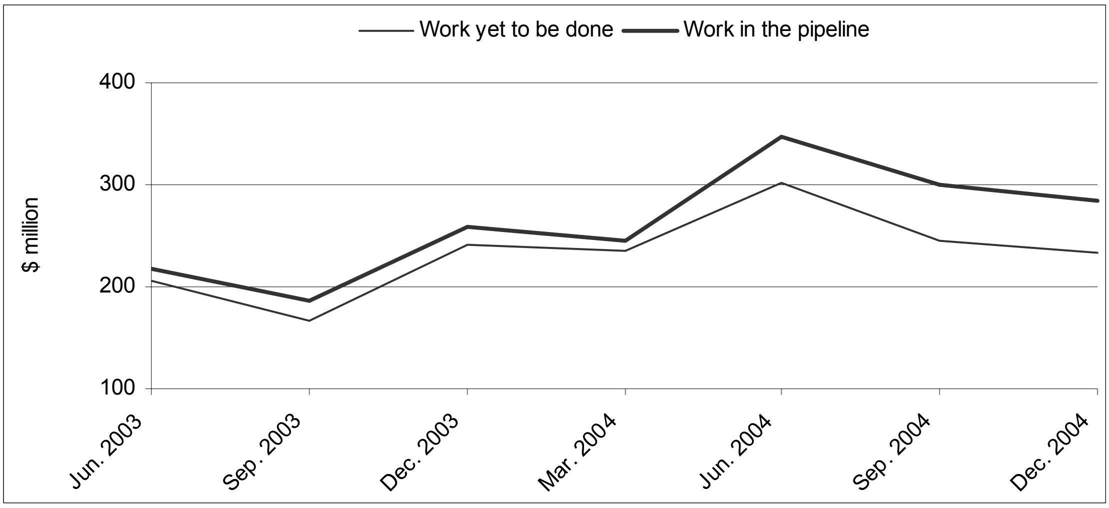
Source: ABS 5609.0.

Until recently, the proportion of total ACT housing finance accounted for by first home-owners was falling, from around 28% in early 2000 down to 10% in early 2004, the lowest proportion since 1990-91, a time when the Australian economy was in recession and nominal interest rates were 15%. However, consistent with the cooling housing market and the ACT Government's additional support for first home buyers, the proportion of housing finance accounted for by first home-owners has risen since mid-2004 to reach a monthly average of around 17% in January 2005.

Dwelling construction

The value of residential construction work "yet-to-be-done" and the total value of work "in-the-pipeline" (i.e., work approved but not-yet-commenced) eased in the first half of 2004-05 from the record levels reached in the June quarter 2004. However, while the value of residential work-yet-to-be-done in the December quarter 2004 is around 4% lower than for the corresponding period of the previous year, the total value of work in the pipeline is around 10% higher.

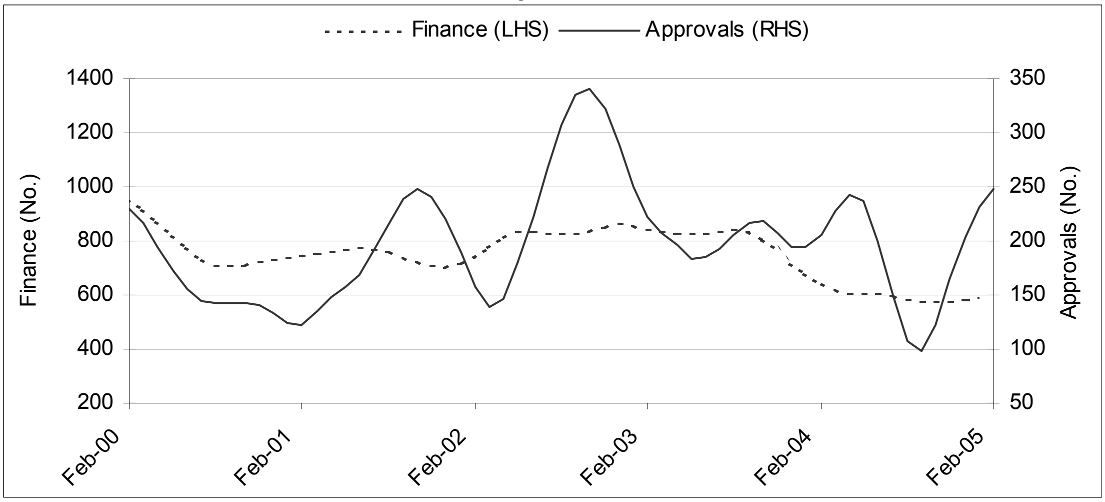
Figure 4.1.7
Value of ACT Residential Construction Work Yet-to-be-Done and in the Pipeline, $ million, Quarterly data.



Source: ABS 8755.0.

The large amount of dwelling construction work in the pipeline and the resurgence in residential building approvals in the five months to February 2005 implies that the ACT residential construction industry will continue to be busy in 2005 and 2006 if the majority of approved dwellings are commenced.

Figure 4.1.8
Housing Finance for Owner Occupation and Residential Building Approvals, Monthly Trend Data



Excludes alterations and additions. Includes refinancing. Sources: ABS Cat Nos 8731.0 and 5609.0.

Non-dwelling Construction

Investment expenditure on non-dwelling construction fell 22.4% in 2003-04. While it is difficult to forecast the timing of non-dwelling construction activity in the ACT, investment is expected to rise in 2004-05 as some major projects currently underway gather pace and some new projects are commenced.

Projects currently in the pipeline include:

- shopping centre developments in Gungahlin;
- an office building (28,000 sq m) on the corner of Akuna and Binara Street Civic;
- the redevelopment of the John Curtin School of Medical Research (Stage 1);
- the National Information, Communication and Technology Centre of Excellence, Civic West;
- the mixed use development of Bunda Street Carpark, Civic;
- refurbishment of Anzac Park Offices, Anzac Parade; and
- the expansion and upgrade of facilities (including a new swimming pool) at the Australian Institute of Sport, Bruce.

In 2004-05, the Government committed to a significant capital works program that is expected to sustain considerable activity over the forward estimate period. Projects include the Gungahlin Drive Extension and Caswell Drive and Glenloch Interchange development; and the ACT Prison complex at Hume.

Prior to the 2001 Federal election, the Commonwealth Government indicated its intention to locate the new Defence Headquarters Complex in a region to the east of Queanbeyan. Bungendore has since been announced as the site for the new Complex. Construction is expected to begin in mid-2005 and completed by 2007-08. The new headquarters are estimated to cost $300 million and are expected to house up to 1,000 staff. The project will involve significant construction input and long-term employment.

The "value added" by the construction will occur in New South Wales and thus will not directly contribute to the ACT's GSP. However, there will be flow-on effects to the extent that ACT businesses supply goods and services to the construction project. Most importantly, a significant number of people (and their families) associated with the project will live and spend money in the ACT, therefore demand in the ACT economy (as measured by SFD) will receive a boost.

Machinery and Equipment

Growth in investment in machinery and equipment in the ACT eased in 2003-04 following four years of very strong growth. Positive growth should continue in line with local business confidence, which remains strong. However, a strong factor driving national investment growth - strong global demand for resources and capacity constraints in this sector - does not apply to the ACT. Hence, investment growth in the ACT is forecast to be less than national investment growth.

Intangible Fixed Assets

Investment in intangibles (which includes computer software) has recorded steady growth of around 5% over the past three years to 2003-04. This steady growth is expected to continue in 2004-05 and 2005-06, as Commonwealth expenditure in the ACT continues to grow and business confidence in the ACT remains high.

Economic Growth

Gross State Product (GSP) is an income-based measure of economic activity derived by summing household income, business profits and indirect taxes less subsidies. Growth in ACT GSP is generally volatile due to the relative narrowness of the ACT economic base compared to the national economy.

Components of GSP

The largest component of GSP in the ACT is Compensation of Employees (COE), which accounted for 59% of GSP in 2003-04. COE consists of the value of entitlements earned by employees from their employers for services rendered during the accounting period.

The second largest component of ACT GSP is Gross Operating Surplus and Gross Mixed Income (GOSMI), which accounted for 32% of GSP in 2003-04. Operating surplus is the income from the production of corporate enterprises, while mixed income is the term used to denote the income from the production of unincorporated enterprises.

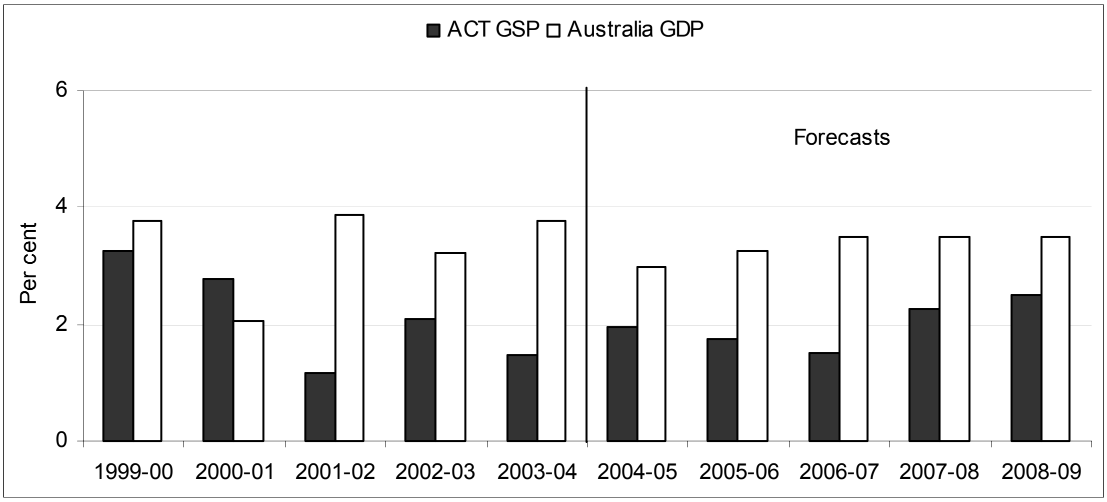
The final component of GSP is taxes less subsidies on production and imports, which accounted for the remaining 9% of GSP in 2003-04. Taxes on production and imports include the GST (from 1 July 2000), wholesale sales taxes (prior to 1 July 2000), excise taxes, payroll taxes, land taxes, local government rates, motor vehicle registration charges paid by businesses, and customs duties. Subsidies are unrequited payments that government units make to resident producers or importers on the basis of the levels of their production activities or the quantities or values of the goods or services which they produce, sell or import.

In 2003-04, ACT GSP amounted to $16,246m in current price terms and represented 2.0% of the national total. In absolute terms, this was higher than the Northern Territory and Tasmania and, in per capita terms, was the highest of any State or Territory.

Outlook for GSP

In 2003-04, ACT GSP grew by 1.5%, while nationally GDP grew by 3.8%. The outlook for GSP remains positive with a growth forecast of 2.0% in 2004-05, 1.0 percentage point lower than the 3.0% forecast in the 2004-05 Budget.

Figure 4.1.9
Annual Growth in Value Added (GSP and GDP), ACT and Australia

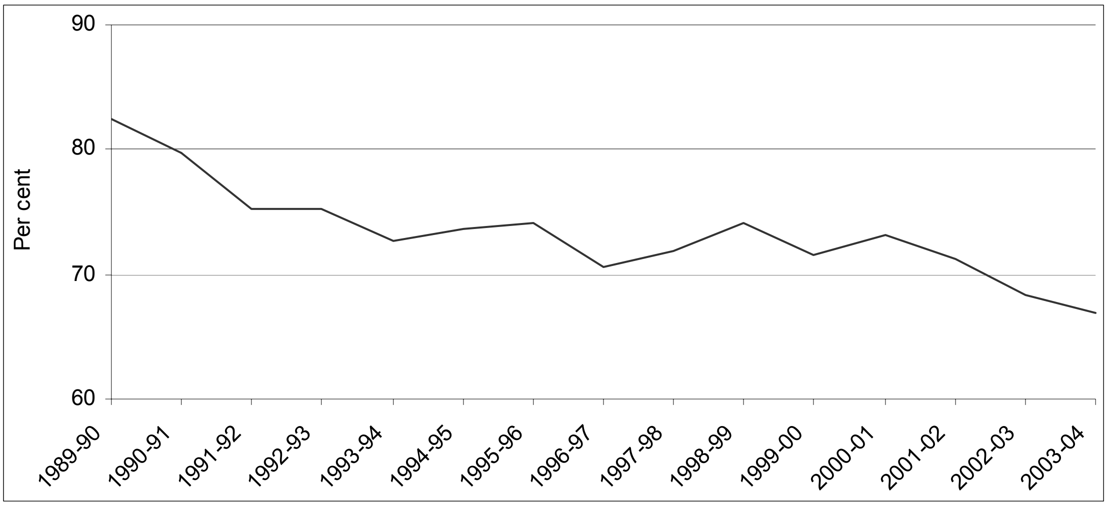


Sources: ABS Cat. No. 5220.0, 2003-04, and 5206.0, September quarter 2004.

The downgraded forecast for ACT GSP growth reflects an ongoing change in the relationship between production and demand in the ACT. For some time now, production in the ACT (as measured by GSP) has been growing at a slower rate than demand (as measured by SFD), suggesting local output is tending to represent a progressively smaller proportion of demand in the ACT economy.

The predominance of white-collar industries in the ACT results in a high reliance on imports of goods and services for both intermediate use and final consumption. The long-term (14 year) average annual growth rates in ACT SFD and GSP (4.0% and 2.5% respectively) are significantly different whereas, at the national level there is little difference between long-term average annual growth rates in DFD and GDP (3.4% and 3.5% respectively). In part, the downward revisions to ACT GSP over the forecast period reflect the expectation that this trend will continue.

Figure 4.1.10
Ratio of ACT GSP to ACT SFD



Source: ABS Cat. No. 5220.0, 2003-04.

Compensation of employees is forecast to contribute around 1.1 percentage points to GSP growth in 2004-05. GSP growth will also be supported by increases in GOSMI and taxes less subsidies on production and imports. The prospects for business profits remain sound in the ACT with the Sensis® *Business Index* showing, on balance, businesses are positive about the ACT economy, employment, sales and profits. It is therefore expected that growth in GOSMI and taxes less subsidies will contribute around 0.9 percentage points to growth in GSP.

The latest forecast for GSP implies that growth in the ACT in 2004-05 is now likely to lag growth at the national level by 1.0 percentage point. The Commonwealth Treasury has revised national growth down to 3.0% for 2004-05 (from 3.5%) to allow for the fact that exports have not responded as quickly as forecast to the favourable external environment, in large part due to capacity constraints but also due to the stronger Australian dollar.

The rate of economic growth in the ACT is forecast to ease slightly in 2005-06 to 1.8%, largely reflecting a slow-down in real Commonwealth outlays from 4.6% in 2004-05 to 2.4% in 2005-06. The contribution from labour income to GSP growth in 2005-06 will ease to 0.9 percentage points as growth in employment eases from 1.5% to 1.0% and is partly offset by strengthening real wages growth from 1.3% to 1.5%.

Labour Market, Wages, Prices and Population

Labour Market

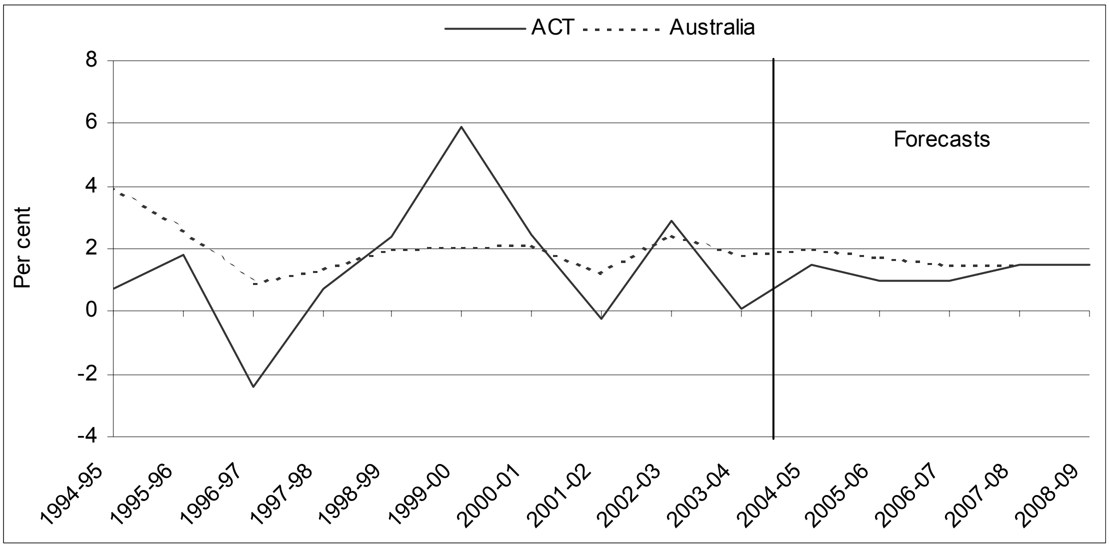
The ACT experienced zero employment growth in 2003-04 in year-average terms. The employment forecast for 2004-05 was revised down from 1.0% to 0.75% for the Pre-Election Budget Update 2004-05 (released September 2004) following negative growth in the first part of 2004-05. More recently, the ACT has recorded strong employment growth.

The monthly labour force estimates show the ACT began 2005 with the highest monthly gain in employment, in seasonally adjusted terms, since July 1987, of 2.9% in January 2005. While month-to-month movements in ACT labour force estimates are extremely volatile, based on employment data to March 2005 the year-average employment growth forecast for 2004-05 has been revised up to 1.5%.

ACT employment growth continues to be constrained by the strength of the national labour market which is making it difficult for the ACT to attract its usual share of interstate migration and ACT employers are reporting difficulties in finding suitable staff to fill vacancies. The ACT unemployment rate continues to be very low and the labour force participation rate continues to be very high.

The employment growth in 2004-05 is being supported by a rise in the labour force participation rate and growth in the government administration and defence, construction, and hospitality and tourism sectors.

Figure 4.1.11
Annual Employment Growth, ACT and Australia



Sources: ABS Cat. No. 6202.0, Commonwealth Treasury MYEFO 2004-05 and ACT Treasury forecasts

The employment forecasts for 2005-06 and 2006–07 are constrained to 1.0% growth by the expected continuation of the tight labour market nationally, an expectation that ACT labour force participation rates are at maximum sustainable levels and a forecast slow-down in the rate of growth in real Commonwealth outlays.

At the national level, Commonwealth Treasury forecasts employment growth to ease from 2% in 2004-05 to 1.75% in 2005-06. Even at this lower rate of employment growth (which is still higher than the current rate of growth of the working age population) the national labour market will tighten further, effectively constraining growth in both the national and ACT economies.

The ACT's potential labour force - the population aged 15 years and over - is growing at an annual rate of 0.7%, well below the national rate of 1.6%. This current pattern of low growth in the potential labour force is likely to continue as long as the national labour market remains strong and the ACT fails to attract its historical share of net interstate migration. Low growth in the ACT's potential labour force, combined with the ACT's already low unemployment rate and high rate of labour force participation, will make it difficult for the ACT to sustain much more than 1.0% annual employment growth in 2005-06 and 2006-07.

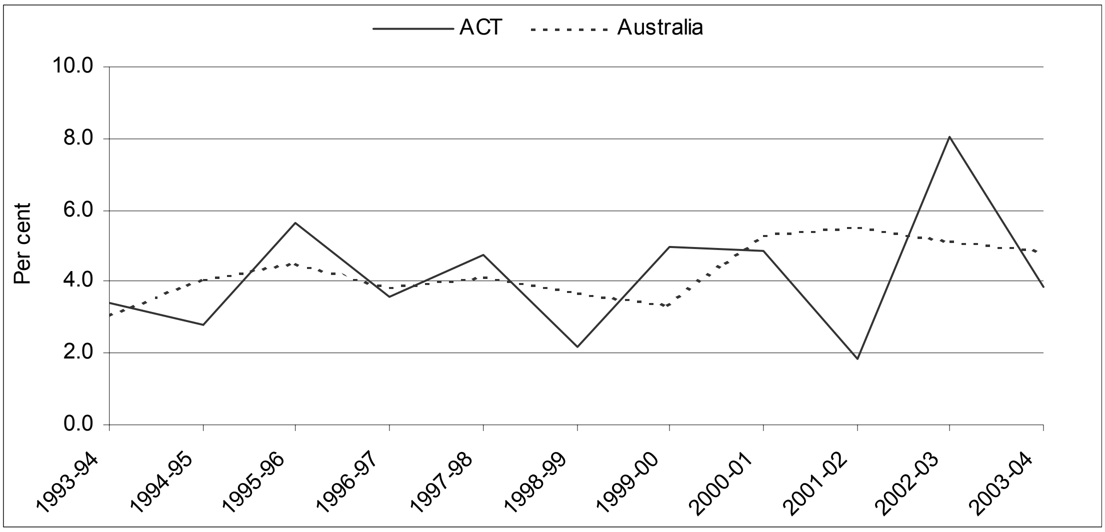
A stronger employment growth rate of 1.5% is forecast for 2007–08 on the basis of a stronger forecast for growth in Commonwealth government outlays in that year and an expectation of an easing in the national labour market.

Wages

Historically, full-time adult average weekly ordinary time earnings (AWOTE) for the ACT have been significantly higher than those for Australia overall. This is due to the different pattern of occupational employment in the ACT, which tends towards relatively high skilled and highly remunerated occupations.

In the November quarter 2004, in seasonally adjusted terms, AWOTE in the ACT was $1,120.50, the highest of any State or Territory and 14.8% above the Australian average of $976.20.

Figure 4.1.12
Annual Growth in Full-time Adult Average Weekly Ordinary Time Earnings, ACT and Australia



Sources: ABS Cat. No. 6302.0.

Movements in average weekly earnings tend to broadly reflect changing labour market conditions. Consistent with the strong rise in ACT employment in year–average terms in 2002-03 (up 3.1%), AWOTE in the ACT rose 8.0% over the same period. In 2003-04, with zero growth in employment in year-average terms, AWOTE in the ACT rose 3.8%, below the national rate of 4.9%. The ACT movement is also affected by the timing of public sector enterprise bargaining awards.

The quarterly growth rate of AWOTE in the ACT was below the national rate throughout 2003-04. However, AWOTE in the ACT outstripped national growth in both the August quarter 2004 (1.7% compared to 1.3%) and the November quarter 2004 (3.6% compared to 1.5%).

The combination of employment and wages growth is forecast to contribute around 0.6 percentage points to the 2.0% forecast real growth in GSP in 2004-05. Recent strong monthly employment results suggest an upside risk to this forecast contribution.

The expected rise in employment growth, combined with steady wages growth, should see a contribution of around 0.9 percentage points to the 1.8% forecast growth in GSP in 2005-06.

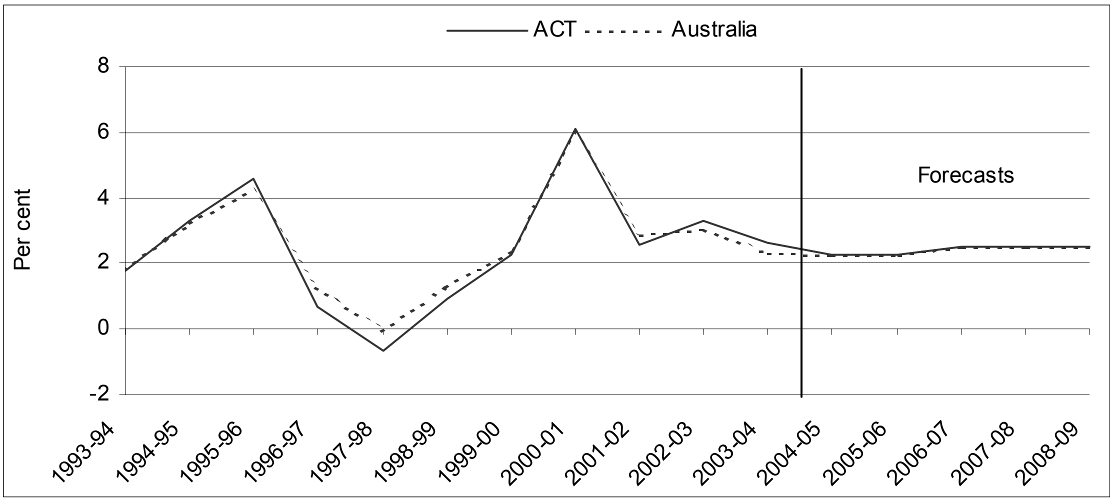
Prices

Price movements in Canberra closely follow national trends. After experiencing low rates of inflation since the early 1990s, the inflation rate spiked at 6.1% in 2000-01 as a consequence of the introduction of the GST. Since then, inflation has remained within the RBA's target band of between 2 and 3%.

The outlook for inflation is for a continuation of current trends, with a 2004-05 forecast of 2.25%. Inflation is expected to continue at 2.25% in 2005-06 before increasing to a rate of 2.5% for the remaining forecast years. The appreciation of the Australian currency over the last year and excess global economic capacity are tending to keep import prices down. However, the Australian currency is not likely to continue to appreciate at the rate achieved in 2004 and therefore the inflation dampening effect from this source will not be sustained in the medium term.

There is a risk that high oil prices will persist and, consequently, provide inflationary pressure. This would, in turn, place upward pressure on interest rates.

Figure 4.1.13
Consumer Price Index, ACT and Australia



Sources: ABS Cat. No. 6401.0 and Commonwealth Treasury

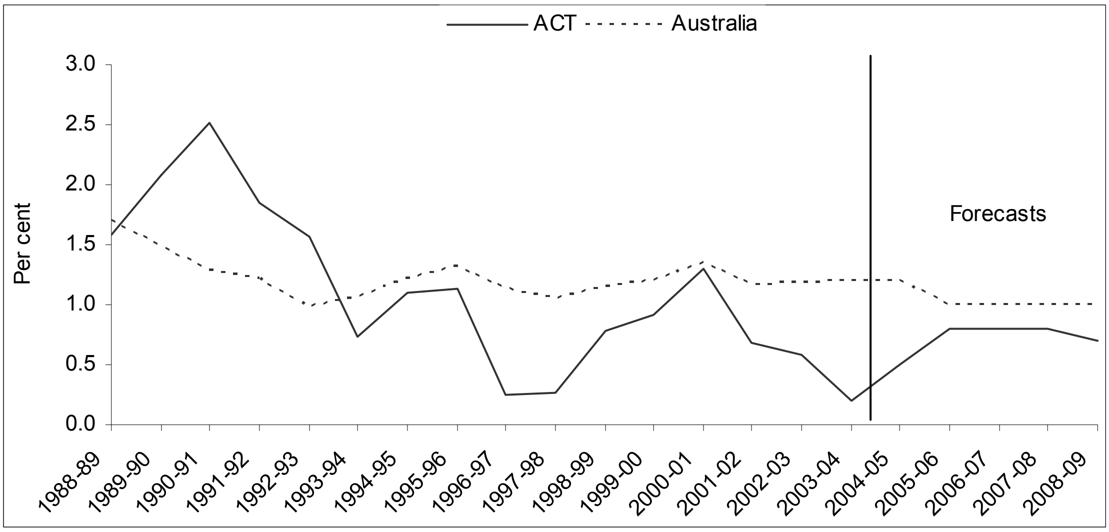
Population

The ACT's population growth rate slowed to 0.2% in 2003-04 following the 0.6% rate recorded in 2002-03. This slow down in growth largely reflects an increase in negative net interstate migration from 1,644 in 2002-03, to negative net interstate migration of 2,392 in 2003-04.

Over the next few years net interstate migration to Canberra is expected to move to an annual average of zero (i.e., about the same number of people moving into Canberra, as the number of people moving out of Canberra).

The ACT population is forecast to rise 0.5% in 2004-05, compared with national growth of about 1.0%. If the current pattern of high levels of negative net interstate migration continues the ACT's population will grow by less than the forecast 0.5% in 2004-05.

Figure 4.1.14
Annual population growth, ACT and Australia



Sources: ABS Cat. Nos 3101.0 and 3222.0 (Series 2), and Demographics ACT