1.2 ECONOMIC SUMMARY

Over recent months there have been increasing signs that the global slowdown that began in the middle of 2000 has come to an end. This has been most evident in the United States and to a lesser extent in Europe and some countries in Asia. Throughout this period, the Australian economy has consistently defied expectations. Over 2001, the Australian economy grew by 4.1%, which was one of the highest rates of growth amongst advanced industrialised economies. The lowest interest rates in 30 years prompted a strong recovery in housing activity and, in tandem with other policy measures, contributed to a strong upturn in consumer spending.

The outlook for the Australian economy remains positive, with growth of between 3 and 4 per cent expected over the next few years. A large part of the expected growth is likely to stem from increasing business investment as Australian firms respond to growing demand from overseas and steady domestic demand. Although the ACT should enjoy positive economic conditions throughout this period, the absence of export oriented mining and manufacturing sectors is likely to result in ACT growth lagging national growth.

The economic forecasts underpinning the 2002-03 Budget are summarised below.

ACT Economic Forecasts

	2000-01 (Actual)	**2001-02** (Forecast)	**2002-03** (Forecast)	**2003-04** (Forecast)	**2004-05** (Forecast)	**2005-06** (Planning)
			(Average annual growth)			
			Percentage change on previous year[a]			
Gross State Product	3.4	3.0	3.1	3.0	3.0	3.0
Employment Growth	2.7	0.0	1.0	1.2	1.0	1.0
Consumer Price Index	6.1	2.75	2.75	2.5	2.5	2.5
State Final Demand	1.5	4.1	2.8	2.9	3.6	3.6
Population[b]	1.0	0.8	0.8	0.9	0.9	0.9

(a) Based on 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) As at June each year.

State Final Demand (SFD) for 2001-02 is now expected to grow by 4.1%, exceeding the 3.0% forecast in last year’s Budget. The 2001-02 result is primarily driven by higher than expected growth in public consumption, which is predominantly Commonwealth Government expenditure, and household consumption, fuelled by lower real interest rates and increased use of revolving credit. Looking forward, demand is expected to moderate as interest rates rise and consumption associated with housing investment declines, and public consumption growth slows.

Public consumption, which is predominantly Commonwealth Government expenditure, is also forecast to increase in 2001-02.

Private investment is expected to rebound strongly in 2001-02 supported by dwelling investment as a consequence of lower interest rates and the First Home Owners Scheme

(FHOS). Building approvals are up 48% in year to date average terms while the value of housing finance commitments is up 22% in year to date average terms. For 2002-03, dwelling investment is expected to slow as demand is dampened by higher interest rates and a reduction in the FHOS payment for new dwellings.

Gross State Product (GSP) is an income-based measure of economic activity that is produced by summing household income and profits from businesses. GSP is forecast to grow by 3.0% in 2001-02, down on the 4.6% forecast in last year's Budget.

The primary cause for the downgraded forecast is lower than expected employment growth during 2001-02. The 2001-02 Budget forecast employment growth of 1.3% however, based on data to May 2002, employment is now expected to decline on a year-on-year average basis. The collapse of Ansett and HIH, as well as the events of September 11 and the associated downturn in the global economy all played a part in destabilising ACT employment during this period. With real wages now expected to increase by 0.5 % in 2001-02, the contribution of compensation to wage and salary earners to GSP growth is expected to be negligible.

Given the downgraded forecast for employment, the bulk of the contribution to increased GSP for 2001-02 is now set to come through increases in Gross Operating Surplus (GOS) and taxes less subsidies on production and imports. The outlook for profits remain sound in the ACT with business expectations revealing that the majority of businesses are positive about the ACT economy, employment, sales and profits.

In the most recent Yellow Pages Business Index (May 2002), a net balance of 69% of Small to Medium Businesses (SMEs) in the ACT were confident about business prospects over the next 12 months. These results support the April 2002 Chamber of Commerce and Industry quarterly Business Expectations Survey which found that 50% of ACT businesses expect an improvement in conditions in the April 2002 quarter.

Price movements in Canberra closely follow national trends. After experiencing low rates of inflation during the later 1990s, the inflation rate spiked up to 6.1% in 2000-01 as a consequence of the introduction of *The New Tax System.*

The outlook for inflation is for a return to pre-GST levels with a 2001-02 forecast of 2.75%. Inflation is expected to remain at 2.75% in 2002-03 and then drop back slightly to 2.5% for the remaining forecast years.