4.1 ECONOMIC CONDITIONS

Overview

The ACT economy is expected to out perform the national economy in 2002-03. The forecast for the ACT and national economic growth rates are 3.4% and 3.0%, respectively. In part, the ACT's superior performance reflects its relatively small exposure to the direct effects of the current drought and sluggish world economy. Looking forward, the ACT economy will continue to record solid growth (3.1% in 2003-04 and 3.0% in the years out to 2006-07) but at rates lower than for the national economy (4.0% in 2003-04 and 3.5% in the out years). Nationally the economy is expected to benefit from a global recovery. The lack of export orientated agricultural, mining and manufacturing sectors will see the ACT economy grow at a slightly lower rate than the national economy.

The **global economic recovery** has been underway since late 2001. In most major economies, the rate of recovery accelerated in the first half of 2002 but then eased toward the end of the year. Historically, Australia's economic growth has closely followed that of the United States (US). While the strength of the US recovery eased late last year the macroeconomic policy settings remain expansionary. US interest rates are at historically low levels and fiscal policy is making a strong contribution to demand growth. Most European economies continue to show only modest growth while the Japanese economy remains weak. However, China and Korea — important trading partners to Australia — continue to grow strongly.

Recent forecasts by the International Monetary Fund (IMF) project global growth in 2003 at 3.2%, up from the 3.0% recorded in 2002. Growth is expected to strengthen to 4.1% in 2004 as the recovery in the majority of the major advanced economies takes hold. Geopolitical uncertainty, however, continues to be a confounding factor in growth forecasts and is a downside risk.

The **Australian economy** grew 3.8% in 2002 (calendar year), continuing its recent pattern of outperforming most other economies. This is remarkably strong growth given the weak global recovery and the effects of the drought. The direct effect of the drought on agricultural production is expected to make a negative contribution of 0.9% to growth in 2002-03. Australian growth continues to be driven by domestic demand, particularly consumer spending and housing construction.

The outlook for the Australian economy remains positive, with a drought downgraded forecast of 3.0% growth in the chain volume measure of Gross Domestic Product (GDP) this year, rising to 4.0% in 2003-04, and 3.5% in the out years. Indications are the housing construction cycle will peak in mid-2003 and growth in domestic demand should ease. However, there are tentative signs that the drought may be breaking and any slow down in domestic demand in 2003-04 will be offset by increases in the value of rural exports.

Although the **ACT economy** is expecting positive conditions throughout this period, the absence of export oriented agricultural, mining and manufacturing sectors is likely to result in ACT growth lagging national growth in 2003-04.

The outlook for **private consumption expenditure** in the ACT is strong. Interest rates are expected to remain low, 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 outlook for **business investment** in the ACT is bright with the strong growth in investment in machinery and equipment evident since 1999–2000 looking set to continue in 2003-04. The Yellow Pages Business Index (February 2003) shows a net balance of 59% of ACT small to medium businesses were confident about business prospects over the next 12 months. This result is consistent with the TMP/Hudson Job Index (formerly TMP Worldwide Job Index) for April 2003 — June 2003. The TMP/Hudson survey shows that, compared to other jurisdictions, ACT employers have the strongest hiring intentions for the next 3 months, with a net 27.6% expecting to increase staffing levels.

Since late 2000 there has been a steep rise in the **value of residential property turnover** in the ACT. The value of ACT housing finance commitments for owner occupation and for investment purposes has risen strongly over this period. The remaining turnover, in large part, is attributable to interstate investment in the local residential property market. Most recently, while the value of ACT housing finance commitments for both owner occupation and investment have continued to rise, the value of total property turnover has fallen. This suggests a waning in interstate investment in the local market. This is consistent with a national easing in housing investment.

Commonwealth government expenditure is a key determinate of the level of economic activity in the ACT. Nominal growth in Commonwealth outlays is forecast to accelerate to 3.8% in 2003-04.

Employment growth in the ACT is expected to ease from this year's very strong rate of around 2.0% to 1.4% in 2003-04. This is higher than the rate contained in the 2002-03 Budget. The key drivers of the higher forecast are an upward revision to government outlays by Commonwealth Treasury and a more moderate short-term scenario for interest rates.

While the effect of the January 2003 **Bushfires** on the stock of assets in the ACT is unequivocally negative (property damage estimated at $250m), in terms of economic activity (i.e. economic flows) the required reparation is likely to provide a small net positive stimulus, mainly spread over 2003 and 2004.

Risks to ACT economic forecasts are low. Geopolitical uncertainty implies uncertainty for world growth and demand for Australian exports. The ACT will be relatively insulated from the impact of lower than expected world growth, due to the absence of export orientated agricultural, mining and manufacturing sectors.

The impact of the cost of Australia's involvement in overseas conflicts on the Federal Government's fiscal decisions could have ramifications for the ACT. The ACT remains highly dependent on Federal Government consumption and the economy is therefore sensitive to changes in the level of public consumption.

In addition, there is a risk that, if the Australian economy was to respond strongly to global growth, interest rates could rise more rapidly and to higher levels than forecast. If this were to occur it would impact noticeably on private consumption and dwelling investment.

The Outlook for the ACT Economy

Table 4.1.1
Economic Forecasts

	2001-02 (Actual)	2002-03 (Forecast)	2003-04 (Forecast)	2004-05 (Forecast)	2005-06 (Forecast)	2006-07 (Planning)
			(Average annual growth)			
			Percentage change on previous year[a]			
Gross State Product	3.9	3.4	3.1	3.0	3.0	3.0
Gross Domestic Product[b]	4.0	3.0	4.0	3.5	3.5	3.5[c]
Employment Growth	–0.7	2.0	1.4	1.5	1.4	1.5
Consumer Price Index	2.8	2.75	2.5	2.5	2.5	2.5
State Final Demand	4.3	3.0	2.9	3.3	2.9	3.0
Interest Rates[d]	4.5	4.75	5.0	5.25	5.5	5.5
Population[e]	0.8	0.8	0.9	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) Commonwealth Treasury estimates included in Mid-Year Economic and Fiscal Outlook, November 2002.
(c) ACT Treasury planning assumption.
(d) Reserve Bank of Australia, average official cash rate.
(e) As at 30 June each year.

Key Assumptions

Nominal growth in Commonwealth outlays is forecast to accelerate to 3.8% in 2003-04, as contained in the Commonwealth Treasury's November 2002 Mid-Year Economic and Fiscal Outlook (MYEFO).

Interest rates are assumed to remain low and at levels ranging from neutral to expansionary in terms of their impact on economic activity.

While the reparation activity required following the January 2003 bushfires will have a stimulatory effect on the ACT economy in 2003 and 2004, it will not be significant.

State Final Demand

State Final Demand (SFD) represents expenditure in the ACT economy. It includes expenditure on goods and services sourced from outside the ACT (imports) and changes in the level of inventories. It is a measure of demand rather than production, comprising Household Final Consumption, Government Final Consumption, and Private and Public Investment.

In 2001-02, SFD amounted to around $20b 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

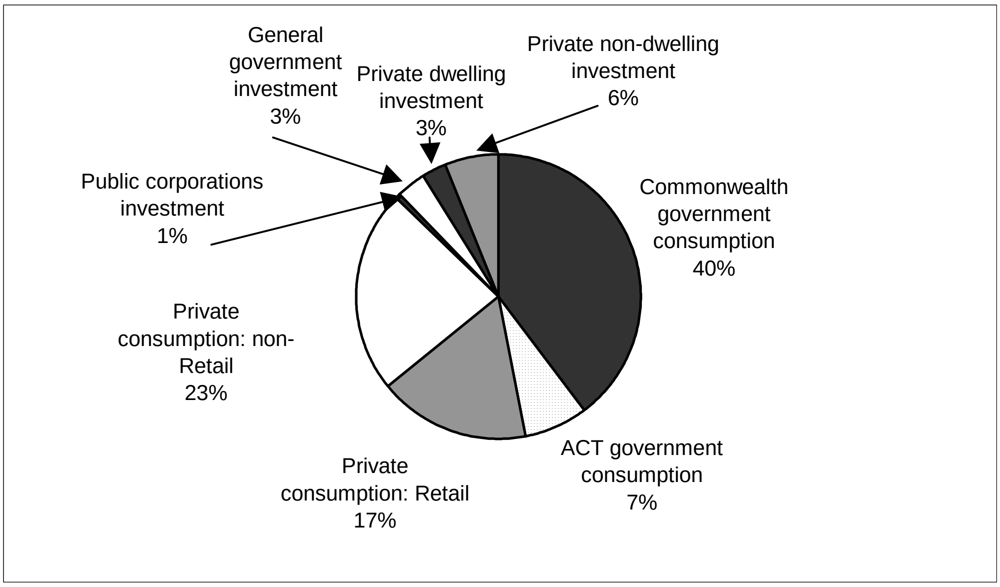
The largest component of ACT SFD is government final consumption expenditure (government consumption). Government consumption is current expenditure by general government bodies on services to the community such as defence, education, and public order and safety. Because these are provided free of charge or at charges which cover only a small proportion of costs, the government is considered to be the consumer of its own output. This output has no directly observable market value, and so it is valued in the national accounts at its cost of production.

Government consumption comprises 47% of total SFD, with the bulk of this being consumption by the Commonwealth (40%) 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 goods such as utilities, transport, health and education. The remainder is expenditure on retail goods such as food, alcohol and tobacco, furnishings and other household equipment. Private consumption tends to be a relatively stable source of demand with households adjusting their savings and credit levels to adjust for short-term economic impacts.

The remaining components of SFD relate to gross fixed capital formation (investment). Investment is measured as the value of acquisitions less disposals of new or existing fixed assets. 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 large influence on percentage movements in SFD.

Figure 4.1.1
Components of ACT State Final Demand, 2001-02

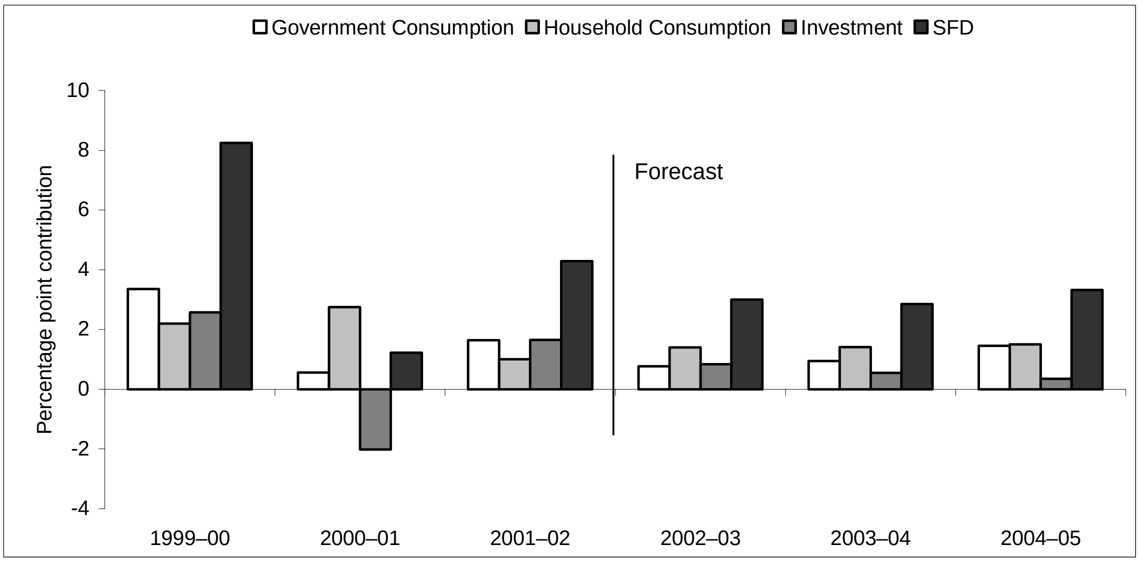


Sources: ABS Cat. no. 5220.0 Table 15 and ACT Treasury estimates.

Contributions to SFD

In 2001-02, the chain volume measure of ACT SFD grew by 4.3% — below the national average of 4.8%. Government consumption grew at a higher rate than private consumption, 3.4% and 2.5% respectively. Investment grew strongly (15.1%) largely due to private investment in dwellings and, to a lesser extent, growth in private investment in other buildings and structures, and machinery and equipment. SFD growth during 2001-02 was well balanced, with investment contributing 1.7 percentage points, government consumption 1.6 percentage points and private consumption 1.0 percentage point.

Figure 4.1.2
Contribution to Change in SFD, Chain volume measure

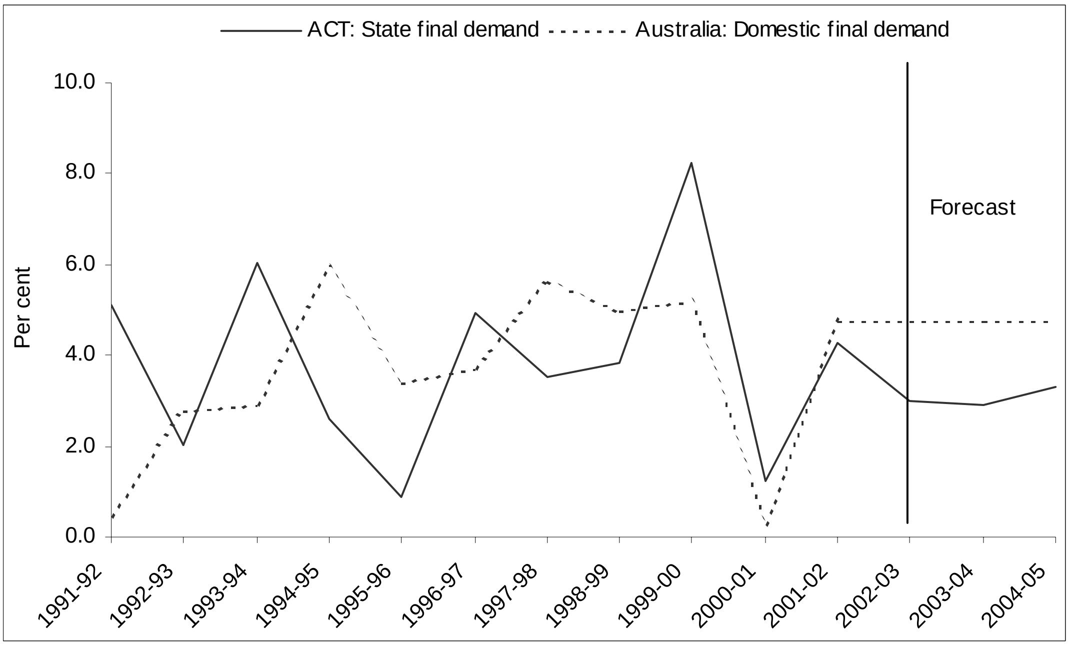


Source: ABS, Cat. no. 5220.0 Table 3.

Outlook for SFD

SFD for 2002-03 is now expected to grow by 3.0%, exceeding the 2.8% forecast in the 2002-03 Budget. Domestic Final Demand, the national equivalent in concept to SFD, is now forecast to grow by 4.75% after being revised upward from 4.5% in the November 2002 MYEFO.

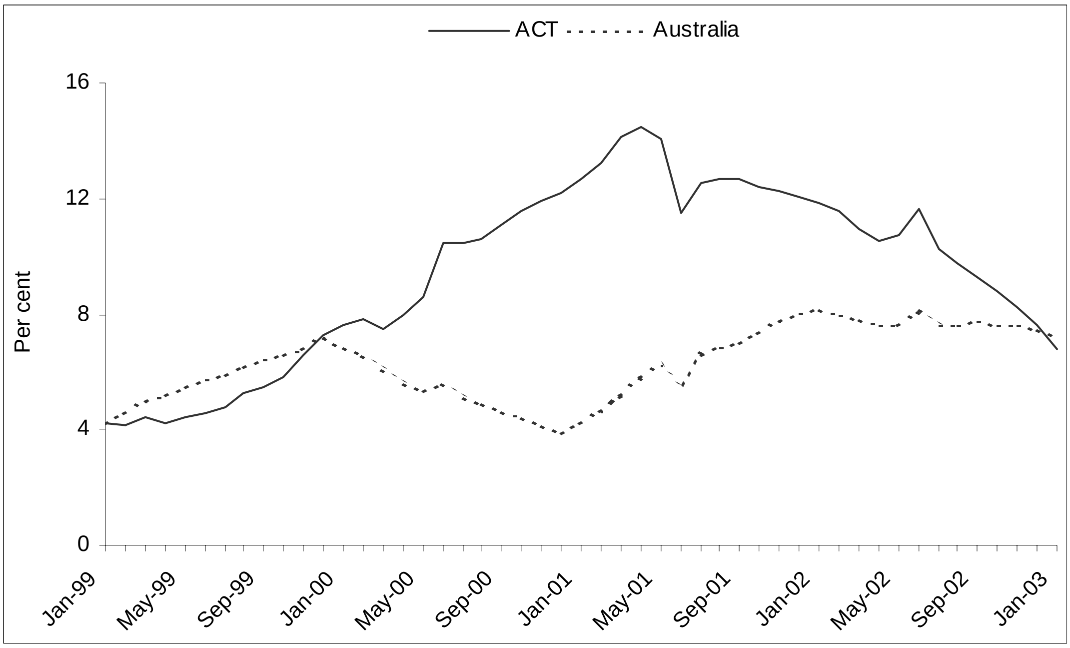
Figure 4.1.3
Annual Growth in Demand, ACT and Australia, Chain volume measure



Source: ABS Cat. no. 5206.0 Tables 18 and 43.

There are three key drivers of the forecast increase in SFD in 2002-03. Firstly, private consumption is likely to grow at around 3.5% as interest rates remain low and year-to-date employment growth is higher than expected. Nationally, consumer confidence remains above average. The wealth effect of rising housing prices is supporting household borrowing and consumption. Household debt as a percentage of disposable income has risen dramatically while household savings (excluding superannuation) has fallen to around zero per cent of household income.

Figure 4.1.4
Annual growth in retail trade, ACT and Australia, monthly moving annual change



Source: ABS Cat. no. 8501.0 Table 4

Secondly, government consumption, which is predominantly Commonwealth government expenditure, is expected to remain at around 2001-02 levels in real terms. In the MYEFO, Commonwealth outlays are forecast to rise 2.5% in nominal terms in 2002-03. This is slightly higher than the Commonwealth Budget forecast in part due to new policy measures announced since the Budget. Nominal growth in Commonwealth outlays is forecast to accelerate to 3.8% in 2003-04 and 4.5% in 2004-05.

Thirdly, private investment in 2002-03 is expected to grow at around 7.0% (real). This is less than half the rate recorded in 2001-02 but still represents strong growth. Leading indicators suggest a slowing in dwelling construction in the second half of 2002-03. From the recent round of its Business Liaison Program, Commonwealth Treasury reports that potential investors in the residential property market are being discouraged by extensive media reporting of a possible market correction. The bulk of the construction activity necessary following the January 2003 Bushfires will be undertaken in 2003-04 rather than 2002-03.

In 2003-04, growth in SFD is forecast to ease slightly to 2.9%. Private consumption is forecast to continue growing at around 3.5% while growth in investment continues to decelerate, partly offset by a slight acceleration in the rate of growth of government consumption.

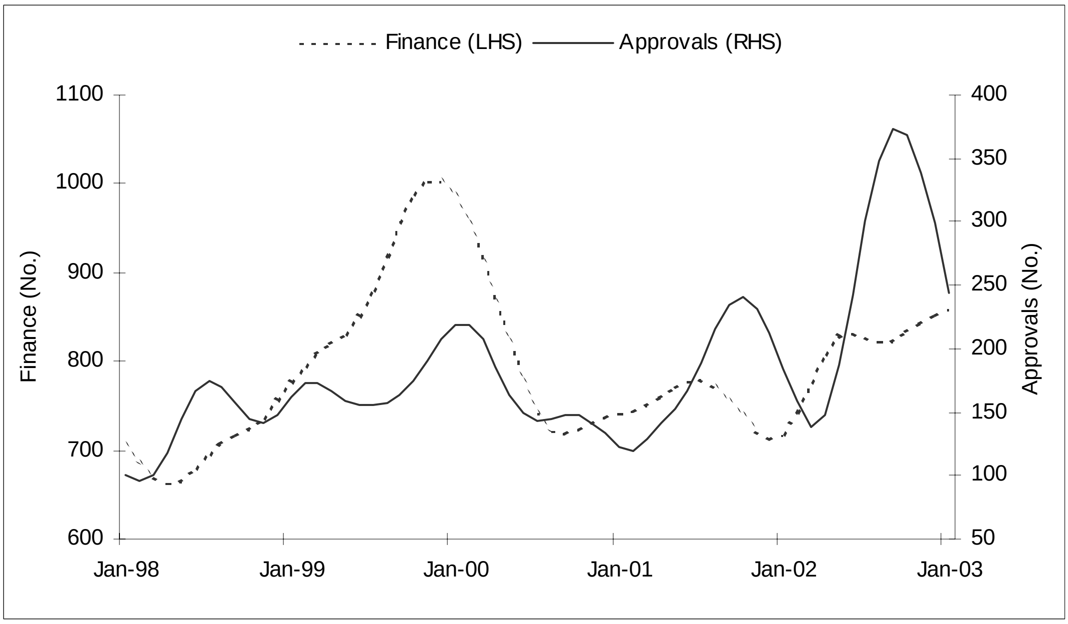
Private Investment

As outlined above, private investment is expected to show strong growth in 2002-03. The growth will be lower but more sustainable than 2001-02's double digit growth, as the residential housing investment sector softens. The components of private investment are discussed in detail below.

Dwellings

Dwelling investment has taken a roller coaster ride over the past four years. Following the "pull-forward" effect of the GST and the lagged effect of the 1.5 percentage point rise in official interest rates from late 1999 to mid–2000, the trend number of monthly building approvals slowed to 120 in February 2001. The number of approvals grew strongly in 2001, in part reflecting the effects of the Commonwealth Government's First Home Owners Grant Scheme (FHOG) — particularly the more generous allowance for new (rather than established) dwellings — and the 2 percentage point fall in official interest rates during calendar year 2001.

Figure 4.1.5
Building Approvals and Housing Finance, Monthly Trend Data

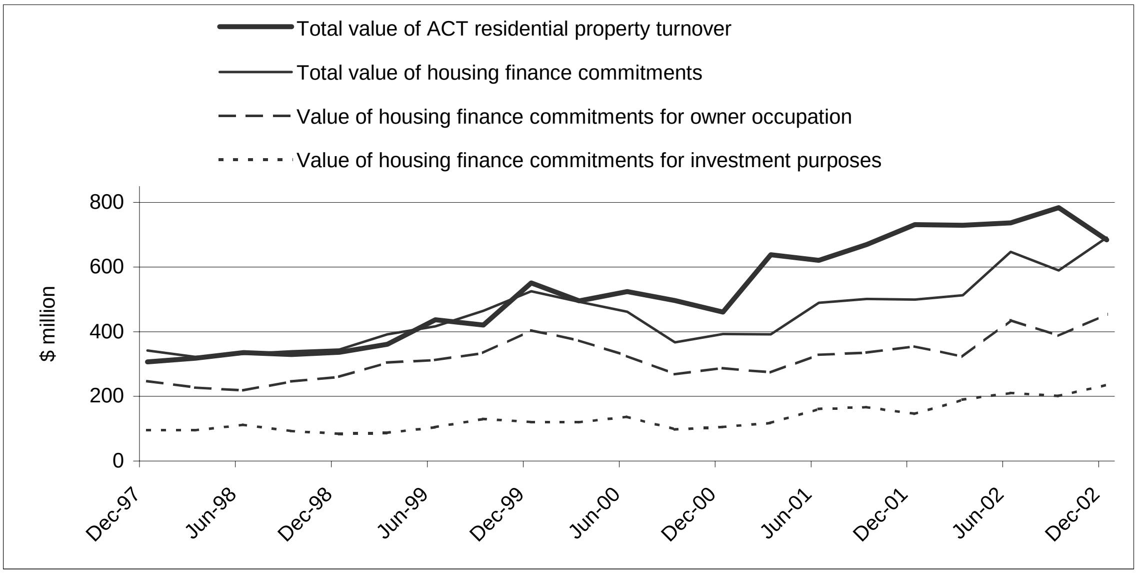


Sources: ABS Cat Nos 8731.0 Table 7 and 5609.0 Table 3

The number of approvals reached a local peak of 240 in October 2001 and then declined through to 139 in March 2002, in part reflecting the unwinding of the effect of the additional component of the FHOG. The large number of approvals since March 2002 includes a large number for units and townhouses. A large multi-unit project in the suburb of Barton contributed to the peak in September 2002. Strong investment in units and townhouses in Canberra and other capital cities has to some extent been fuelled by strong price rise/capital gain expectations and a shift in investor preference away from weak equity markets. There is some evidence, however, that investor activity has moderated. Based on the results from its Business Liaison Program, Commonwealth Treasury has recently reported that potential investors are being discouraged by the extensive media coverage around a possible correction in the residential property market.

Since late 2000 there has been a steep rise in the value of residential property turnover in the ACT. The value of ACT housing finance commitments for owner occupation and for investment purposes has risen strongly over this period. The remaining turnover, in large part, is attributable to interstate investment in the local residential property market. Most recently, while the value of ACT housing finance commitments for both owner occupation and investment have continued to rise, the value of total property turnover has fallen. This suggests a waning in interstate investment in the local market. This is consistent with a national easing in housing investment.

Figure 4.1.6
Value of ACT Residential Property Turnover and Housing Finance Commitments



Source: ABS 5671c9 and 5609.0, and ACT Planning and Land Management.

Dwelling investment in the ACT is expected to ease to more sustainable levels. Nationally, there is some concern that certain segments of the housing market may be oversupplied. For the ACT this is considered to be less of a concern in the medium term due to continuing tight rental vacancies, exacerbated by the short–term demand resulting from the bushfires.

Other Buildings and Structures

Investment expenditure on other buildings and structures rose 31.5% in 2001-02. While it is difficult to forecast non-residential construction activity in the ACT, investment is expected to ease in 2002-03 as some major projects are completed.

Proposed and continuing major capital projects include:

- the Queanbeyan bypass;
- maintenance of the National Museum;
- upgrading the Australian Institute of Sport;
- the Kingston Foreshore Development Project;
- Gungahlin Drive extension; and
- primary and high schools at Amaroo.

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. This project will entail significant construction inputs and long-term employment. A large proportion of these benefits will flow to the ACT.

Machinery and Equipment

The strong growth in investment in machinery and equipment evident in the ACT since 1999–2000 looks set to continue. This expectation is in line with local business confidence, which remains strong.

In the most recent Yellow Pages Business Index (February 2003), a net balance of 59% of Small to Medium Businesses in the ACT were confident about business prospects over the next 12 months. This is 4 percentage points higher than the national average and 5 percentage points higher than the November 2002 result for the ACT.

However, a strong factor driving national investment growth — expected growth in global demand for agricultural products, resources and manufactures — is less significant for the ACT. Hence, investment growth in the ACT is forecast to be less than that expected nationally.

Intangible Fixed Assets

In current price terms, investment in intangibles (which includes computer software) peaked in 2000–01 at $260m and fell slightly in 2001-02 to $252m. However, these historically high nominal levels are expected to be maintained in real terms in 2002-03 and 2003-04, as businesses 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 has been 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 60% of GSP in 2001-02. COE consists of the value of entitlements earned by employees from their employers for services rendered during the accounting period. It covers wages and salaries received by employees in cash and in kind, changes in provisions for future employee entitlements, employers' contributions to superannuation funds and premiums paid by employers to workers compensation schemes.

The second largest component of ACT GSP is Gross Operating Surplus and Gross Mixed Income, which accounted for 31% of GSP in 2001-02. 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. Gross Operating Surplus and Gross Mixed Income measures the surplus accruing from processes of production before deducting any explicit or implicit interest charges, land rent or other property incomes payable on the financial assets, land or other tangible non-produced assets required to carry on the production. Importantly, the majority of public sector production is attributed an output value equivalent to its input costs and, therefore, its only contribution to GOS is in terms of consumption of fixed capital (i.e. capital depreciation).

The final component of GSP is taxes less subsidies on production and imports, which accounted for the remaining 9% of GSP in 2001-02. 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 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. Examples include export incentive grants, dairy industry stabilisation payments, the phosphate fertiliser bounty, and the Tasmanian freight equalisation scheme.

In 2001-02, ACT GSP amounted to $14.3b in current price terms. This represented approximately 2.0% of the national total. In absolute terms, this was higher than the Northern Territory and Tasmania and, in per capita terms, was second only to the Northern Territory.

Outlook for GSP

In 2001-02 ACT GSP grew 3.9%, while nationally Gross Domestic Product (GDP) grew 4.0%. The outlook for GSP remains positive with a growth forecast of 3.4% in 2002-03, higher than the 3.1% forecast in last year's Budget.

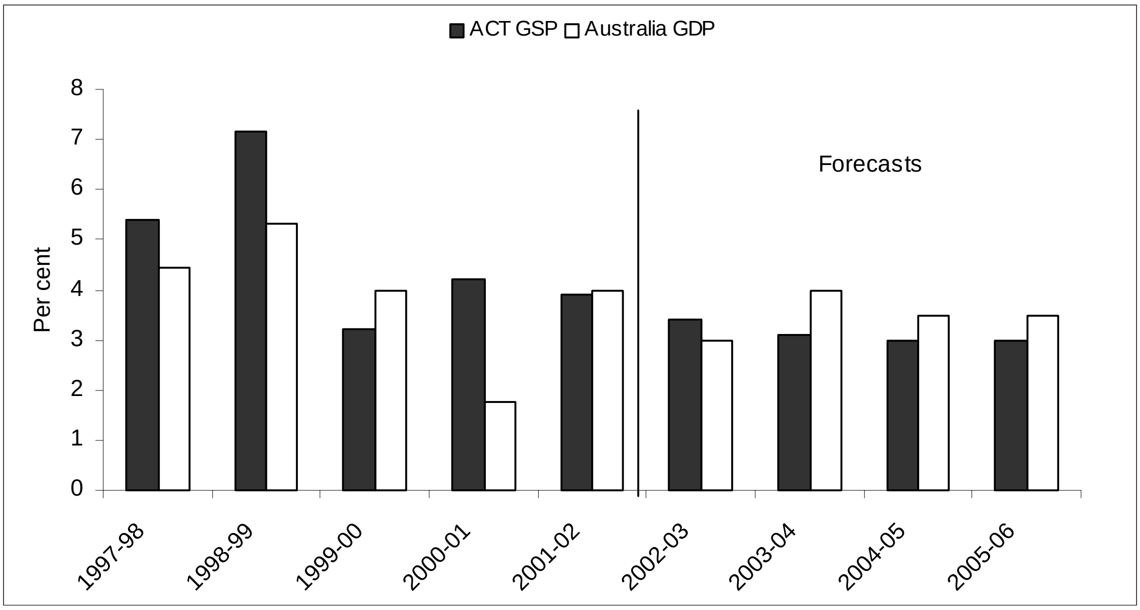
The latest forecast for GSP implies that growth in the ACT in 2002-03 is now likely to exceed growth at the national level. The Commonwealth Treasury has revised national growth down to 3.0% for 2002-03 (from 3.75%) to allow for the impacts of the drought and lower than expected global growth. The higher result for the ACT reflects the fact that Canberra has virtually no agricultural sector and is, therefore, only indirectly affected by the drought, and has limited exposure to events overseas due to its small export base.

The primary cause for the upgraded forecast for ACT GSP growth is higher than expected employment growth during 2002-03. The 2002-03 Budget forecast employment growth of 1.0%. Based on actual data to February 2003, employment is now expected to grow at around 2.0% on a year-on-year average basis.

In addition to the upgraded forecast for employment, GSP growth will also be supported by increases in Gross Operating Surplus and Gross Mixed Income and taxes less subsidies on production and imports. The prospects 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. It is therefore expected that growth in Gross Operating Surplus and Gross Mixed Income will contribute approximately 1.0 percentage point to growth in GSP, with 0.3 of a percentage point to come from taxes less subsidies.

The rate of economic growth in the ACT is forecast to moderate in 2003-04 to 3.1% as growth in employment slows and real wages remain steady. Growth in business profits is expected to be steady around the long-run average of 3.4% painting a business-as-usual scenario for local industry and reflecting that the ACT is unlikely to benefit greatly from the expected strengthening of the global economic recovery.

Figure 4.1.7
Change in GSP/GDP, ACT and Australia



Sources: ABS Cat. no. 5220.0, 2001-02, Table 18; and 5206.0, December quarter 2002, Table 43.

Labour Market, Wages, Prices and Population

Labour Market

Employment in the ACT fell 0.7% in 2001-02 in year–average terms. The first eight months of 2002-03 have seen employment rise by 3.5% in average terms and the extent of this rise means that employment growth may exceed the 2.0% forecast in year–average terms this financial year. Strong employment growth is presently being experienced in the retail, hospitality, government and construction sectors.

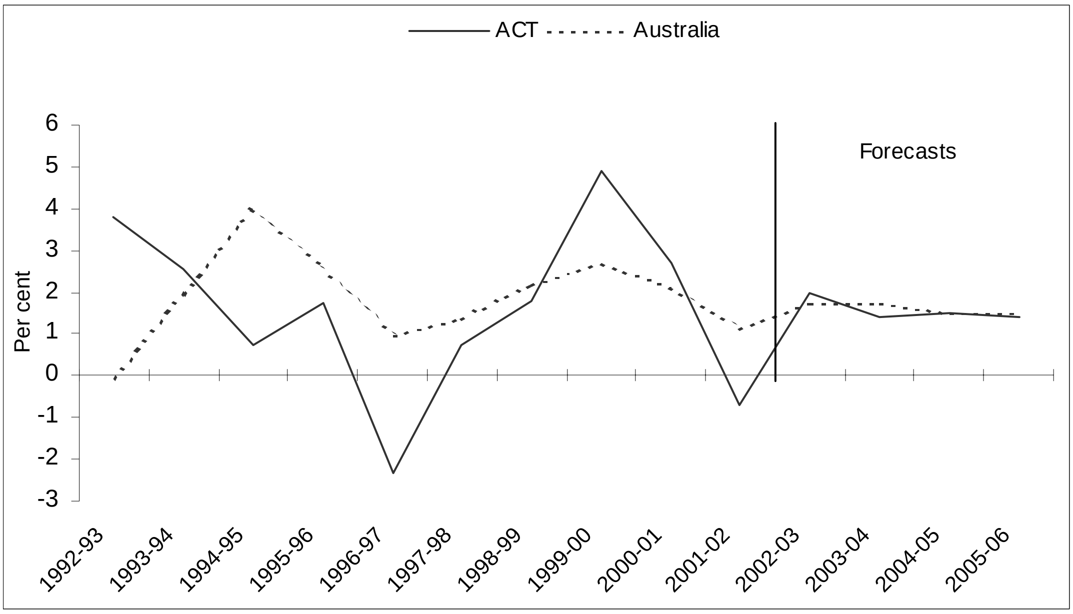
There are two main reasons for the stronger than expected employment growth in 2002-03.

Firstly, interest rates have not increased as expected which has led to higher than predicted growth in household consumption and private investment in housing, and in turn higher employment levels in the retail and construction sectors.

Secondly, the retail, hospitality and government sectors have rebounded strongly following a very unsettled period in the first half of 2001-02. The collapse of HIH, the events of September 11 and the timing of the ACT and Federal elections led to reductions in ACT employment. Since this time, the tourism and retail sectors have rebounded and the public sector has resumed expanding.

Although employment growth is expected to ease from this year’s very strong rate, the forecasts for 2003-04 and beyond are higher than those contained in the 2002-03 Budget. The key drivers of the higher forecasts are an upward revision to Commonwealth government outlays and a more moderate short-term scenario for interest rates. These two factors will ensure a more stable outlook for household and government consumption expenditure that should lead to relatively strong medium–term employment growth.

Figure 4.1.8
Annual Employment Growth, ACT and Australia



Sources: ABS Cat. no. 6202.0 Tables 8h and 8I, Commonwealth Treasury MYEFO 2002-03 and ACT Treasury forecasts

Wages

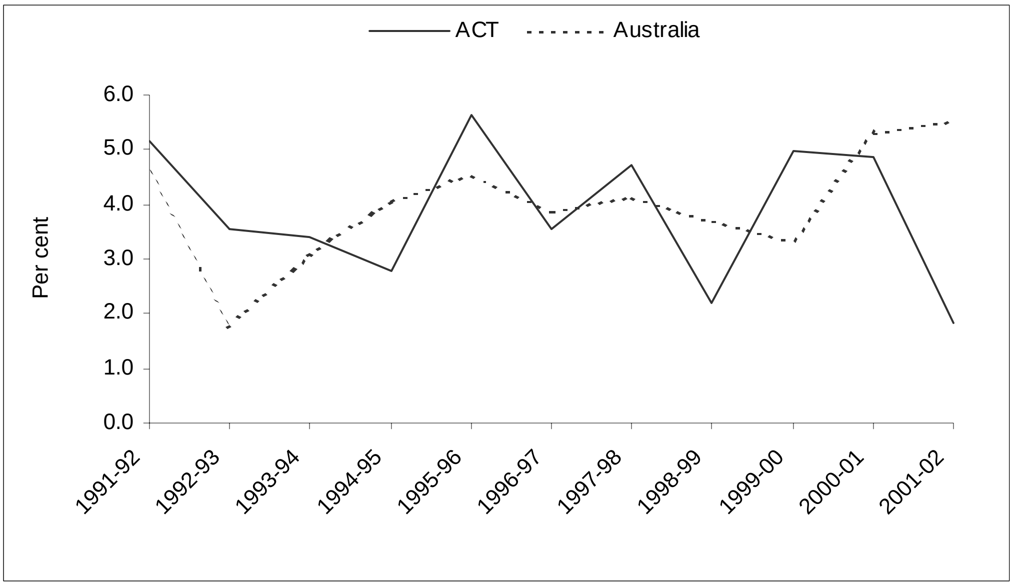
Historically, full-time adult average weekly ordinary time earnings (AWOTE) for the ACT have been significantly higher than those for Australia overall. This is due to the different pattern of occupational employment in the ACT which tends towards relatively high skilled and highly remunerated occupations.

AWOTE in the ACT have risen steadily since February 1999. In seasonally adjusted terms in the November quarter 2002, AWOTE in the ACT were $1,019.60, up 2.5% on the previous quarter and well above the Australian average of $888.70.

Movements in average weekly earnings tend to broadly reflect changing labour market conditions in the Territory. Consistent with the 0.7% fall in ACT employment in year-average terms in 2001-02, in seasonally adjusted terms AWOTE in the ACT fell from $953.60 in the August quarter 2001 to $950.80 in the May quarter 2002. The recent strong growth in AWOTE in the ACT supports the expectation for a strong employment outcome for the ACT for 2002-03.

The combination of strong employment growth and steady wages growth will contribute around 2.1 percentage points to the 3.4% forecast growth in GSP in 2002-03. The forecast easing in employment growth will result in the combination of employment and wages growth contributing 1.7 percentage points to the 3.1% forecast growth in GSP in 2003-04.

Figure 4.1.9
Annual change in Average Weekly Earnings, ACT and Australia



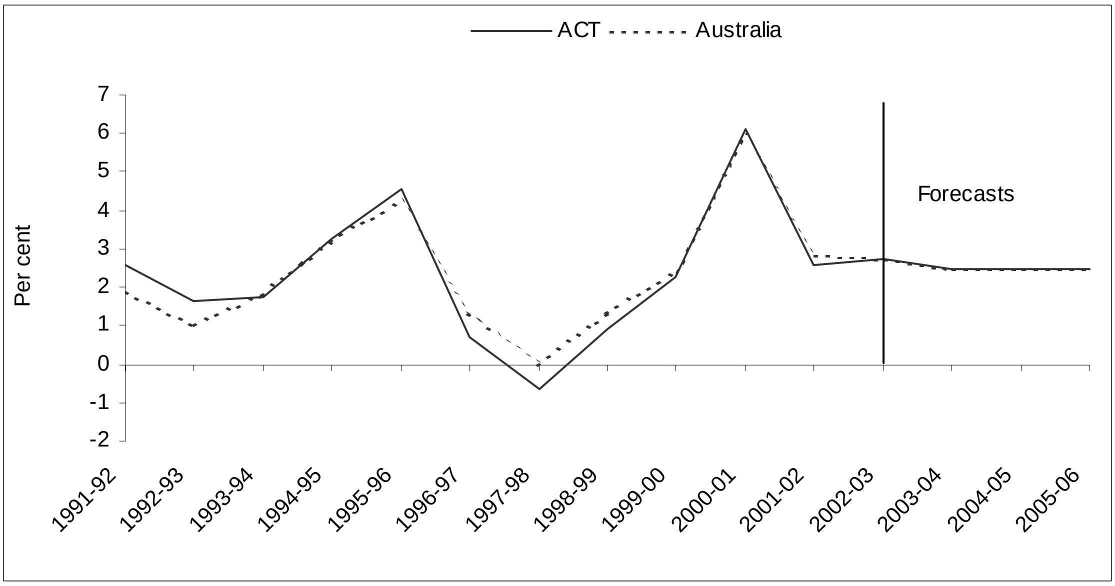
Sources: ABS Cat. no. 6302.0 Tables 2 and 12h

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.

The outlook for inflation is for a return to pre-GST levels with a 2002-03 forecast of 2.75%. Inflation is expected to ease to 2.5% in 2003-04 and remain at this rate for the remaining forecast years. There is presently some upward pressure on prices emanating from the insurance sector (September 11 and HIH collapse), the food sector (drought) and the transport sector (oil prices). These pressures are not expected to be sustained in the longer term.

Figure 4.1.10
Consumer Price Index, ACT and Australia



Sources: ABS Cat. no. 6401.0 Table 1a and Commonwealth Treasury

Population

The ACT's population growth rate moderated to 0.8% in 2001-02 following the high rate of 1.3% recorded in 2000–01. This slow down in growth largely reflects a turnaround from positive net interstate migration of 407 in 2000–01, to negative net interstate migration of 978 in 2001-02.

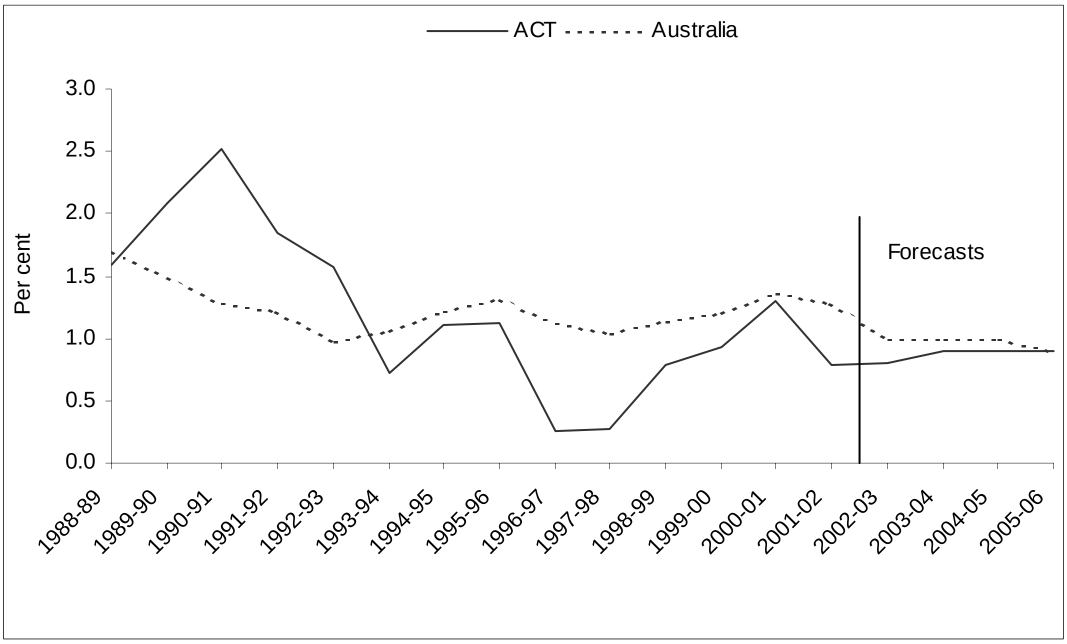
Over the next few years net interstate migration to Canberra is expected to return to positive levels due to an expanding and more diversified economy and a strong labour market which will encourage more people to move to Canberra, and fewer to leave.

The ACT population is expected to increase by 0.8% in 2002-03, compared with national growth of above 1.0%. In 2001-02, the proportion of the ACT population in the "independent" age group (15-64 years) were 71.1%. The proportions of the population in the "dependent" age groups 0-14 and 65+ were 20.2% and 8.8%, respectively.

In 2001-02, the ACT's dependency ratio — a measure of the "dependent" population (aged 0-14 years and 65 years and over) relative to the "independent" population (age 15-64 years) — was 40.7%, slightly lower than the 41.4% ratio five years ago. The slight fall in this ratio over the past five years reflects the rise in the 65+ proportion being more than offset by a fall in the 0-14 proportion and a rise in the 15-64 proportion.

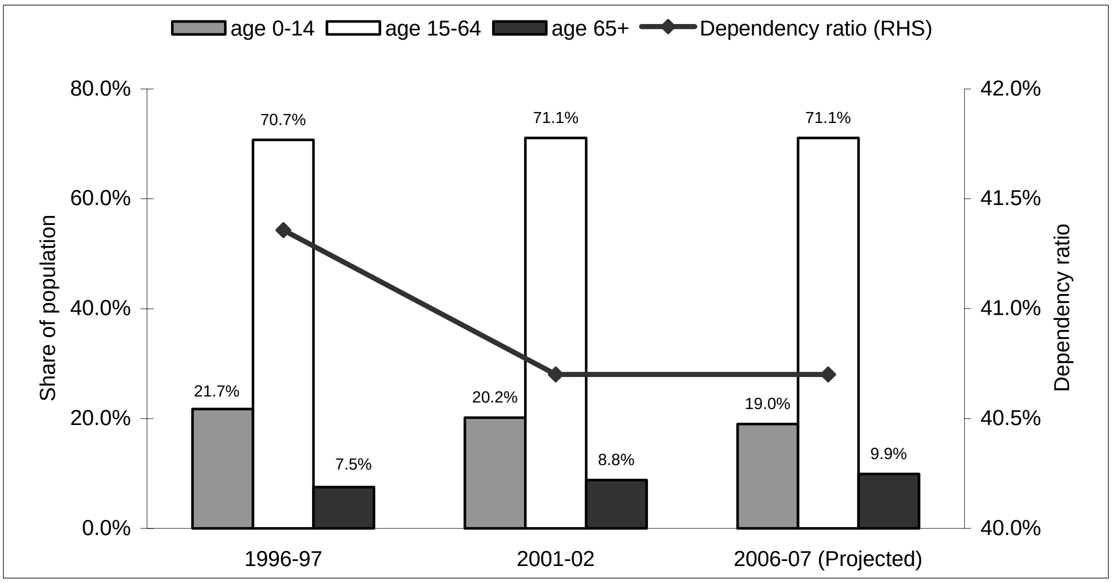
Looking forward five years, the dependency ratio is forecast to remain steady at 40.7% as the 15-64 proportion remains steady at 71.1% and the slight rise in the 65+ proportion (up from 8.8% to 9.9%) is offset by a slight fall in the 0-14 proportion (down from 20.2% to 19.0%).

Figure 4.1.11
Annual population growth, ACT and Australia



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

Figure 4.1.12
ACT Population: Age Distribution, Actual and Projected



Sources: ABS Cat. nos 3201.0 and 3222.0 (Series 2)

Bushfires

The January 2003 Bushfires caused an estimated $250m damage to property in the ACT. In summary the direct economic impacts relate to the:

- activity associated with fighting the Bushfires;
- loss of production due to damage to business assets; and
- increased production related to the replacement or repair of damaged assets.

While the affect on the stock of assets in the ACT is unequivocally negative, in terms of economic activity (i.e, economic flows), the Bushfires are likely to provide a net positive stimulus.

In terms of the flow of economic activity, the negative effect of decreased production due to the loss of productive assets is likely to be more than offset by increased production resulting from fire fighting and the necessary reparation activity.

This assessment is based on the general nature of the asset damage. Estimates of the decreased production due to the loss of productive assets, and the economic value and cost to the ACT of the fire fighting activity, are not yet available.

The estimated $250m damage to property represents around 1.0% of the forecast for total consumption and investment expenditure in the ACT in 2003-04 (i.e. around 1.0% of SFD). The direct impact on SFD will, however, be less than 1.0% when the following factors are taken into account:

- loss of production due to damage to business assets;
- the extent to which reparation activity will crowd out, postpone or bring forward activity that would otherwise have taken place; and
- reparation activity will be spread over at least a 2 year period.

With a direct effect on SFD of less than 1.0%, it follows that the direct effect on GSP will be insignificant. This reflects the fact that almost all goods used for production or consumption in the ACT are imported from outside the ACT.

In addition to the direct effects on economic activity, there will be indirect or flow-on effects resulting from the increased demand from other industries and changes in income and consumption. These indirect economic effects will, however, be offset by the same factors offsetting the direct economic effects, and also by any negative impacts on ACT Tourism.