

1.2 ECONOMIC SUMMARY

The ACT economy is expected to out perform the national economy in 2002–03. In part, the ACT’s expected superior performance reflects its relatively small exposure to the direct effects of the current drought. Looking forward, the ACT economy will continue to record solid growth but at rates lower than for the national economy. Nationally the economy is expected to benefit from strengthening world demand. The ACT’s lack of export orientated agricultural, mining and manufacturing sectors will see its economy grow at a slightly lower rate than the national economy.

The economic forecasts underpinning the 2003–04 Budget are summarised below.

Table 1.2.1
ACT 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.

State Final Demand (SFD) for 2002–03 is now expected to grow by 3.0%, exceeding the 2.8% forecast in the 2002-03 Budget. The 2002–03 result is primarily driven by higher than expected growth in household consumption and private investment (particularly housing). The strong contribution from household consumption reflects stronger than expected growth in employment and interest rates remaining at historically low levels. Continuing low interest rates and relatively poor returns in equity markets have sustained the housing investment.

Looking forward, growth in SFD will be driven by growth in government outlays, household consumption and private investment. Government outlays are expected to increase gradually over the next two years but then drop back slightly in the out years. Household consumption is likely to remain fairly steady as gradual increases in interest rate are offset by slightly higher than expected employment growth. Growth in private investment is set to drop back from the very high levels of the past two years as interest rates begin to climb and the extremely buoyant housing sector starts to flatten out. This decline in private investment is the main reason growth in demand will lag growth in production over the forecast period.

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 3.4% in 2002–03, up on the 3.1% forecast in the 2002-03 Budget.

The primary cause for the upgraded forecast is higher than expected employment growth during 2002-03. The 2002-03 Budget forecast assumed employment growth of 1.0%. Year to date indicators, however, show a buoyant ACT labour market and this forecast is revised up to 2.0%.

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

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 national outlook for inflation is for a return to pre-GST levels with a 2002–03 forecast of 2.75%. Inflation is expected to drop back to 2.5% in 2003–04 and remain at that rate out to the 2006–07 planning period. There is some risk that oil prices and an extended drought will put upward pressure on prices.