

4.1 ECONOMIC CONDITIONS

Overview

The ACT economy is expected to grow 2.7% in 2003-04, around one percentage point lower than the national economic growth rate of 3.75%. In part, the ACT's slower growth reflects its relative lack of export orientated agriculture and mining sectors. Nationally, the economy is expected to benefit from a substantial rise in farm production as the drought abates, and from the current strong growth in mining related commodity prices as global demand rises. Looking forward, the ACT economy will continue to record solid growth (3.0% in 2004-05 and around 3.0% in the years out to 2007-08) but at rates lower than for the national economy (3.5% in 2004-05 and the out years).

The strength of the global economic recovery has accelerated since mid-2003. Historically, Australia's economic growth has closely followed that of the United States (US). The strength of the US recovery accelerated in the second half of 2003 to an annualised rate of around 6% growth, and the macroeconomic policy settings remain highly expansionary. US interest rates are at historically low levels and fiscal policy, via both tax cuts and increased government expenditure, is making a strong contribution to demand growth. With the Chinese economy leading the way, most East Asian economies are currently recording strong growth. Japan, which is still Australia's largest trading partner is now recording accelerating growth. By contrast European economies continue to show only modest growth.

Recent forecasts by the International Monetary Fund (IMF) project global growth in 2004 of 4.6%, up from an estimated 3.9% in 2003. Growth is expected to remain strong in 2005 (4.4%) as the recovery in the majority of the major advanced economies continues. The convergence of the geopolitical cycle will see elections held in the US, the United Kingdom, Australia, and the ACT within the next year or so. The impact of this convergence on global, national and local economic growth is unclear.

The **Australian economy** grew 3.0% in the year to the December quarter 2003, continuing its recent pattern of outperforming most other economies. The increase in farm production as the agriculture sector recovers from the drought is expected to make a 0.75 percentage point positive contribution to growth in 2003-04. 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 forecast of 3.75% growth in the chain volume (i.e., the 'real') measure of Gross Domestic Product (GDP) this financial year, easing to 3.5% in 2004-05, and remaining at 3.5% for the out years. Indications are that housing construction will record modest growth in 2003-04, and growth in domestic demand while revised up to 4.5%, will ease on the 2002-03 rate of 6.2%. Despite the recent strong appreciation of the Australian dollar, the value of rural exports is expected to rise in 2003-04, offsetting any slowdown in domestic demand.

Although the **ACT economy** is expecting positive conditions throughout this period, the absence of export orientated agriculture, mining and manufacturing sectors is likely to result in ACT growth lagging national growth in 2004-05.

The outlook for **private consumption expenditure** in the ACT is optimistic. Interest rates are expected to rise but still remain at historically low levels, 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 will be partly offset by slower growth in housing related consumption and declining rates of credit growth.

The value of **business investment** in the ACT should remain at around the historically high level reached in 2002-03. The annual growth rate in private sector investment in machinery and equipment has been remarkably strong in the past four years, ranging between 17% and 50%. The Sensis Business Index (formerly the Yellow Pages Business Index) for February 2004 shows a net balance of 70% of ACT small to medium businesses are confident about business prospects over the next 12 months. This result is consistent with the Hudson Report (formerly the TMP/Hudson Job Index) for April 2004 - June 2004. The Hudson survey shows ACT employers have strong hiring intentions for the next three months, with a net 31.0% expecting to increase staffing levels - higher than the national average of 27.3%.

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 also risen strongly over this period. The remaining turnover, in large part, is attributable to interstate investment in the local residential property market. However, interstate investment in the ACT property market has been declining since 2002, and since mid-2003 housing finance commitments for ACT individual investors have declined. These ACT indicators are consistent with a national easing in housing investment. In the ACT in 2003, the value of total property turnover remained steady despite a large rise in average residential prices. This suggests an easing in the ACT property market as turnover trends downwards.

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 slightly to 3.0% in 2004-05. However, the ACT's share of Commonwealth Government activity has declined since the mid-1990s. For example, in the five years to 2002-03 the annual average real growth in Commonwealth Government consumption expenditure nationally has been 2.5%, whereas growth in Commonwealth consumption in the ACT has been only 1.8%.

Employment growth in the ACT is expected to accelerate from this year's rate of around 0.7% to 1.0% in 2004-05. However, this is lower than the rate contained in last year's Budget. The key drivers of the lower forecast are the potential impacts of the upcoming ACT and Federal elections, and the impact of slightly higher interest rates on household consumption and private investment. Additionally, strong job growth in the rest of Australia is making it difficult to attract interstate migrants to the ACT. The recent widening of the movement in job advertisements relative to employment, and the slowing in population growth, implies a labour shortage that will impose a drag on ACT economic growth.

While the affect of the January 2003 bushfire on the stock of assets in the ACT was unequivocally negative (total property damage estimated at \$350m, including \$250m in damage to housing), in terms of economic activity (i.e., economic flows) the ongoing reparation is likely to provide a small net positive stimulus, mainly spread over 2004 and 2005.

As at the end of February 2004, out of 500 homes lost, 266 (bushfire related) Development Applications had been lodged, 252 had been approved and 65 Certificates of Occupancy had been issued. The number of Certificates of Occupancy issued are expected to rise steadily as the dwellings currently under construction are completed. These indicators show a good deal of the economic activity related to the **rebuilding of homes** will occur in 2004-05 and beyond.

Risks to ACT economic forecasts are low. The risk of an upset to the current pattern of accelerating world growth appears low. In any case, 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.

There is a risk that if the Australian economy was to respond strongly to global growth, and the rate of change in domestic prices showed signs of moving above the Reserve Bank of Australia's inflation target range of 2 to 3%, **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 in the ACT, particularly given the build-up in household debt in recent years.

The **Federal election** expected to be held in the second half of 2004 and, to a lesser extent, the ACT election to be held in October 2004 will both impact on the ACT economy. The tendency for elections to dampen employment growth — due to a decline in business related tourism and related industries, and a usual hiatus in recruitment processes — has been factored into the ACT's employment forecast.

The Outlook for the ACT Economy

**Table 4.1.1
Economic Forecasts**

	2002-03 (Actual)	2003-04 (Forecast)	2004-05 (Forecast)	2005-06 (Forecast)	2006-07 (Forecast)	2007-08 (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 ^c
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

State Final Demand (SFD) represents expenditure in the ACT economy. It includes expenditure on goods and services sourced from outside the ACT (i.e., expenditure on goods and services imported from interstate and overseas). SFD is a measure of demand rather than production, and it is comprised of Household Final Consumption, Government Final Consumption, and Private and Public Investment.

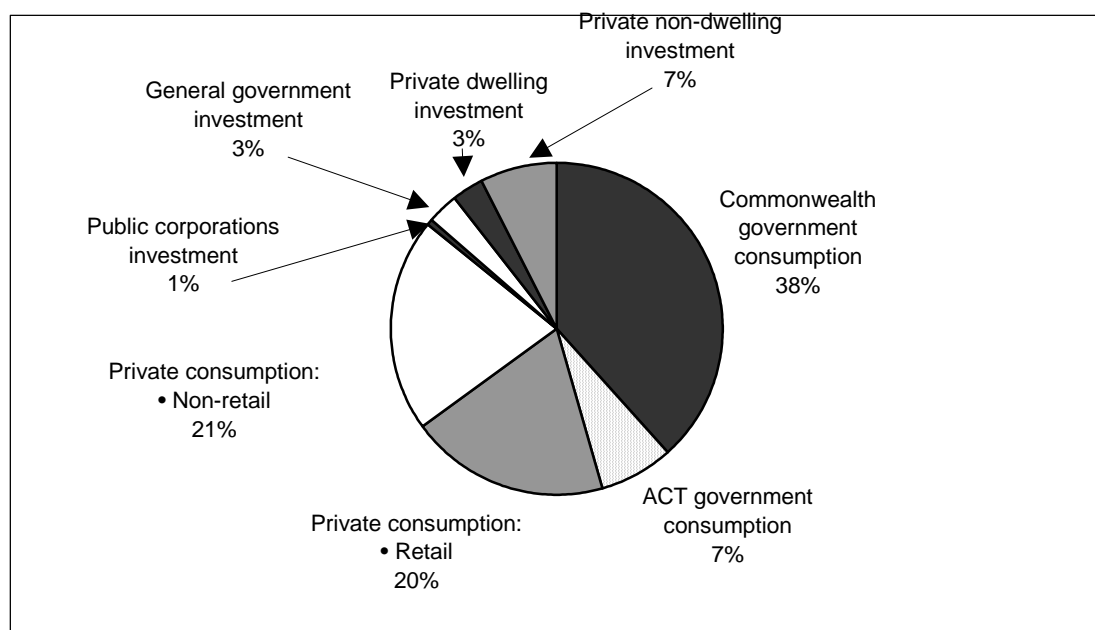
In 2002-03, SFD amounted to around \$21 billion for the ACT. This represented approximately 2.8% of the national total. In absolute terms, this was higher than the Northern Territory and Tasmania and, in per capita terms, was the highest of all States and Territories.

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. By convention, because these services are provided free of charge or at charges that 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 expenditure does not include transfer payments (eg., social assistance benefits such as the Newstart Allowance and Age Pension, and interest payments on government debt securities).

Figure 4.1.1
Components of ACT State Final Demand, 2002-03



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

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

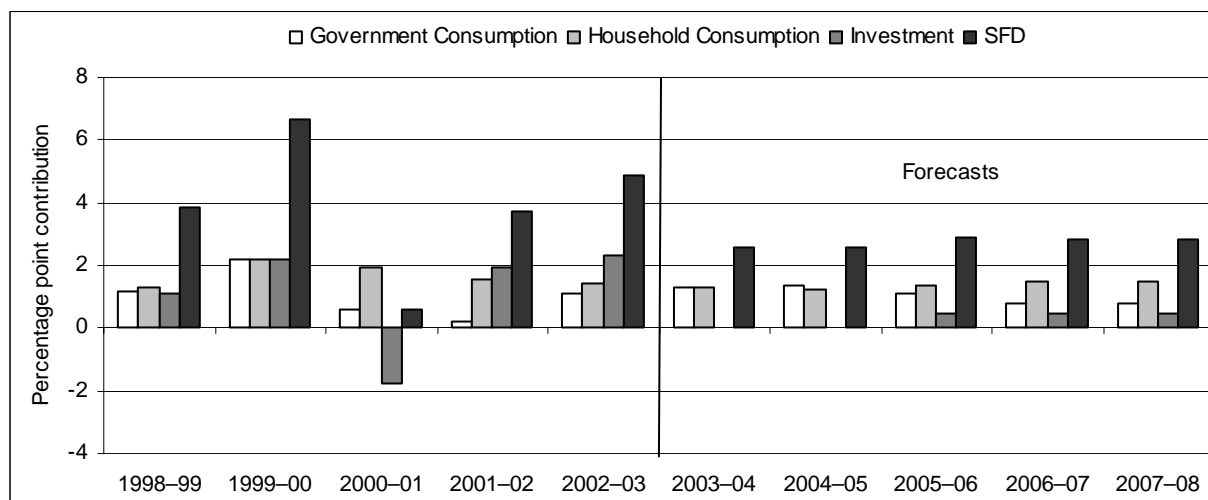
The second largest component of SFD is Household Final Consumption Expenditure (private consumption), which makes up 41% of total SFD. Private consumption measures recurrent expenditure by households and non-profit institutions serving households. Private consumption is a large aggregate covering a wide 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. 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. The investment component of SFD includes only fixed investment. That is, it does not include changes in inventories. 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, make a large contribution to the rate of growth of SFD.

Contributions to SFD

In 2002-03, the chain volume measure of ACT SFD grew 4.8% — below the national average of 6.2%. Private consumption in the ACT grew at a faster rate than public consumption, 3.5% and 2.4% respectively. Investment grew strongly (18.6%) largely due to private investment in machinery and equipment, and private investment in dwellings. Growth in private investment in non-dwelling construction was modest. Investment in total made a 2.3 percentage point contribution to the 4.8% growth in SFD during 2002-03 while private consumption contributed 1.4 percentage points and government consumption contributed 1.1 percentage points.

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



Source: ABS, Cat. No. 5206.0.

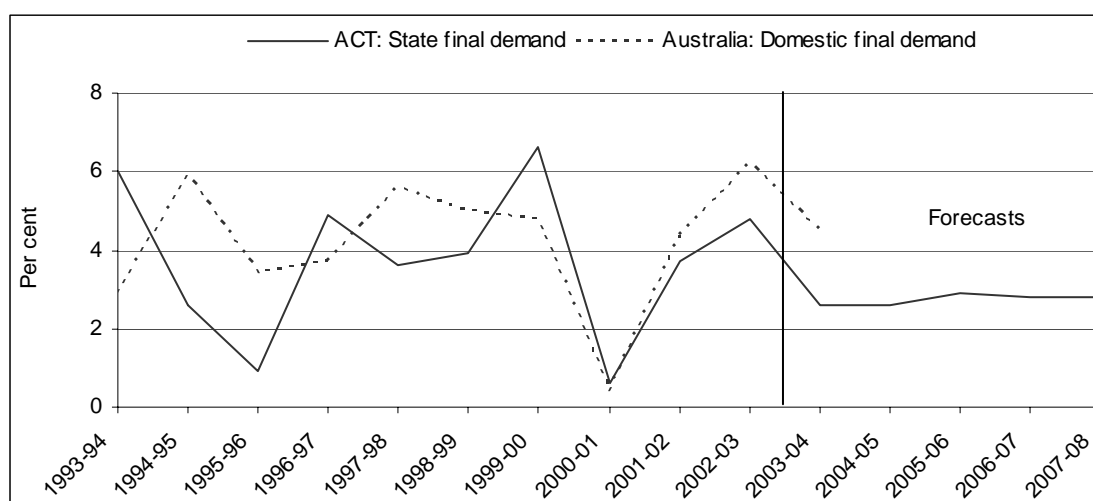
Outlook for SFD

SFD in 2003-04 is now expected to grow 2.6%, slightly below the 2.9% forecast in last year's Budget. Domestic Final Demand (DFD), the national equivalent in concept to SFD, is now forecast to grow 4.5%, having been revised upward in the December 2003 Mid Year Economic and Fiscal Outlook (MYEFO) from the 3.0% forecast in last year's Federal Budget.

There are three key drivers to the slightly lower forecast increase in SFD in 2003-04.

Firstly, private consumption is likely to grow at around 3.2%, as year-to-date employment growth is lower than expected. Also, the interest rate rises in late 2003 and the possibility of further rises in 2004 may dampen household consumption, particularly consumption funded by borrowing.

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



Source: ABS Cat. No. 5206.0.

Influenced by historically low interest rates and strong rises in house prices, household financial debt as a percentage of disposable income has risen dramatically. That is, the household sector is highly geared and their consumption choices may be more sensitive to interest rate rises.

From the recent round of its Business Liaison Program, Commonwealth Treasury reports that the rise in interest rates has had a negligible impact on business activity to date but that a number of business contacts raised concerns about the impact of future increases on the spending of their customers. However, national consumer confidence remains above average.

Secondly, government consumption, which is predominantly Commonwealth Government expenditure, is expected to rise 2.8% in real terms on 2002-03 levels.

The 2.8% forecast for real Commonwealth Outlays in the December 2003 MYEFO is up 1.1 percentage points on the 1.7% forecast contained in last year's Federal Budget. The upward revision to estimated Commonwealth outlays is largely due to new policy measures related to Medicare, new listings on the Pharmaceutical Benefits Scheme, drought relief funding, and assistance to the Solomon Islands.

While the increase in Commonwealth outlays will tend to increase economic activity in the ACT (eg., public administrative activity) the magnitude of the increase is unknown. Commonwealth Government expenditure per capita continues to be significantly higher in the ACT than in other jurisdictions, however the growth rate of Commonwealth expenditure in the ACT has fallen below the national average. For example, the average real annual growth rate in Commonwealth expenditures in the ACT over the five-year period 1991-92 to 1995-96 was higher than the national average, 4.9% and 2.6% respectively. However, over the five-year period 1998-99 to 2002-03 the growth rate in the ACT was lower than the national average, 1.8% and 2.5% respectively. The current expenditure priorities of the Commonwealth Government would suggest that the increase in outlays will be weighted towards regions other than the ACT.

Thirdly, in real terms, private investment in 2003-04 is expected to remain at around the high level reached in 2002-03. That is, the real rate of growth in private investment in 2003-04 is expected to be zero. This expectation of zero growth follows the unsustainable 18.6% growth rate recorded in 2002-03, and largely reflects a forecast easing in the housing sector. Year-to-date and forward-looking indicators confirm activity in the housing sector is beginning to ease.

In 2004-05, growth in SFD is forecast to remain at 2.6% as a slight rise in the real rate of growth of Commonwealth government outlays is offset by slower growth in household consumption. The expectation of slower growth in household consumption reflects the impact of expected further interest rate rises and a slowing in the level of dis-saving by ACT households. The negative impact of interest rate rises on consumption is expected to be largely offset by a rise in employment. Growth in total investment is expected to continue to ease in 2004-05 (i.e., zero growth) following the exhausting rates recorded in 2001-02 and 2002-03.

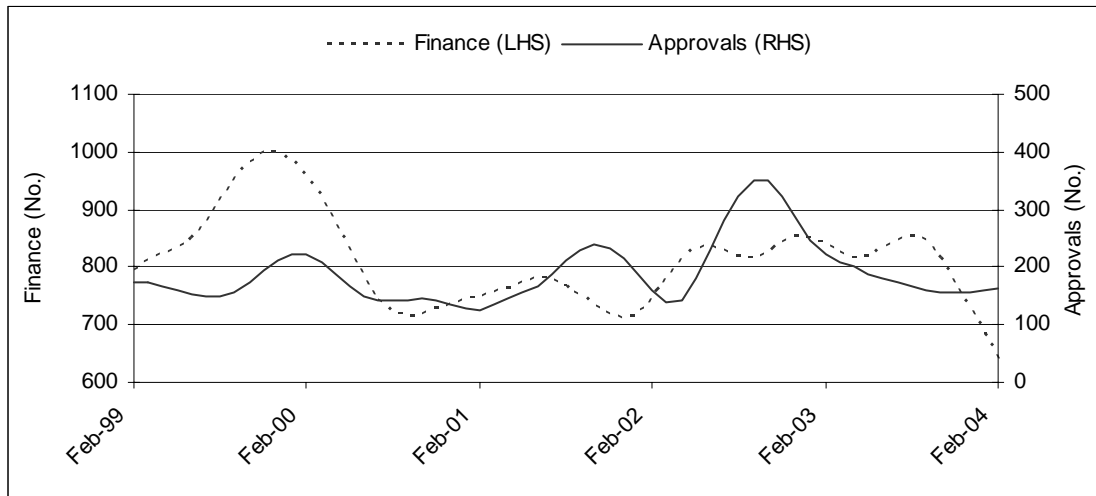
Private Investment

As outlined above, private investment is expected to show zero growth in 2003-04, as the residential housing market eases. However, the level of investment will remain high in 2003-04 following the 18.8% real growth recorded in the previous year. The components of private investment are discussed in detail below.

Dwellings

Dwelling investment has taken a roller coaster ride over the past five 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 125 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 4.1.4
Housing Finance for Owner Occupation(a) and Residential Building Approvals,
Monthly Trend Data

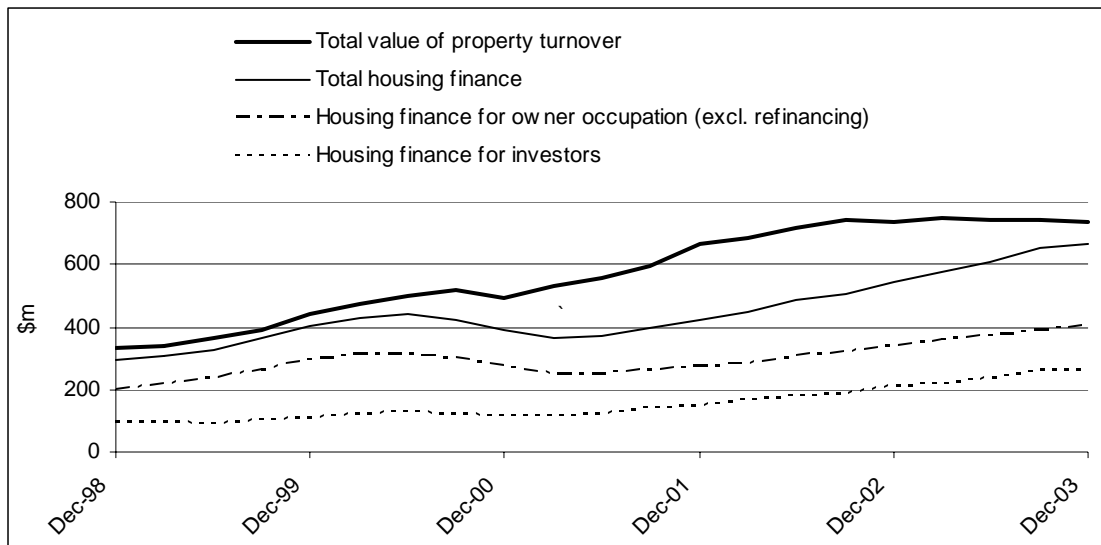


Excludes alterations and additions. Includes refinancing. Sources: ABS Cat Nos 8731.0 and 5609.0.

The number of approvals reached a local peak of 238 in October 2001 and then declined to 138 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. Strong investment in units and townhouses in Canberra and in 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. However, there are signs that investor activity is moderating, and this trend is expected to continue as equity markets continue to improve.

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.

Figure 4.1.5
Value of ACT Residential Property Turnover and Housing Finance Commitments,
Quarterly Original Data.

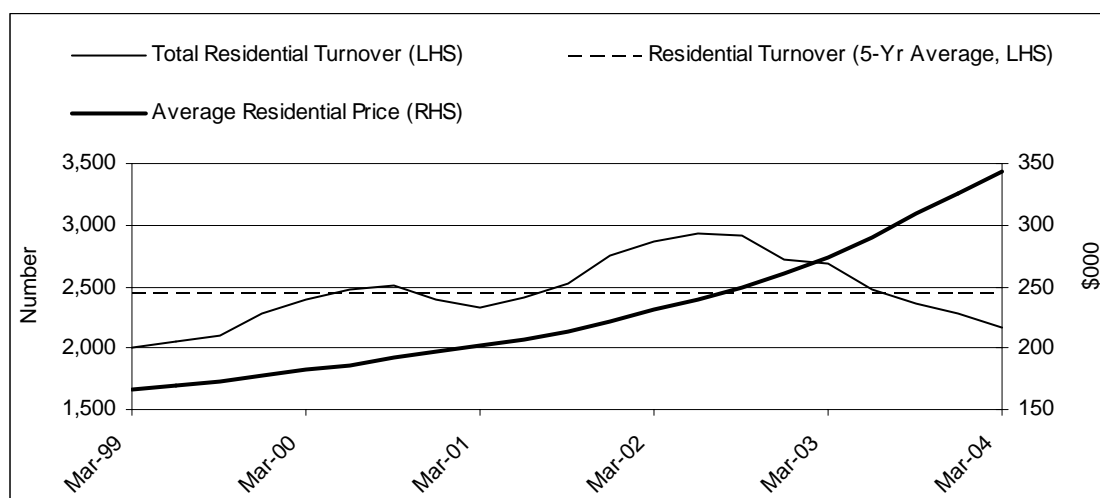


Source: ABS 5671c9 and 5609.0, and ACT Planning and Land Authority.

Most recently, the value of ACT housing finance commitments for owner occupation has continued to grow, while the value of ACT housing finance commitments for investment has levelled off since mid-2003. The gap between the total value of property turnover in the ACT and the total value of ACT housing finance commitments has narrowed in 2003. These trends suggest a waning in both interstate and local investor interest in the ACT property market.

While house prices have continued to rise in 2003, the number of properties sold has fallen substantially, such that the total value of property turnover has stagnated. This trend suggests the ACT property market is cooling off and is consistent with a national easing in housing demand.

Figure 4.1.6
ACT Residential Property Turnover (Number) and Average Residential Price, Quarterly Original Data



Source: ACT Planning and Land Authority

Looking forward, dwelling investment in the ACT is expected to ease to more sustainable levels as vacancy rates rise and returns from rental income soften. Indeed, the Real Estate Institute of Australia reports the vacancy rate in Canberra reached 4.5% in the December quarter 2003, the highest rate since the December quarter 1996.

Non-dwelling Construction

Investment expenditure on non-dwelling construction rose 3.2% in 2002-03. While it is difficult to forecast non-dwelling construction activity in the ACT, investment is expected to ease in 2003-04 as some major projects are completed. The ACT Government, however, is committing to a record capital works program which is expected to sustain considerable activity over the forward estimate period.

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 be 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 entail significant construction input 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.

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 national investment growth.

Intangible Fixed Assets

The chain volume measure of investment in intangibles (which includes computer software) reached a peak of \$280m in 2002-03. This historically high level is expected to be maintained in real terms in 2003-04 and 2004-05, 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 2002-03. 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 (GOSMI), which accounted for 32% of GSP in 2002-03. 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. GOSMI 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).

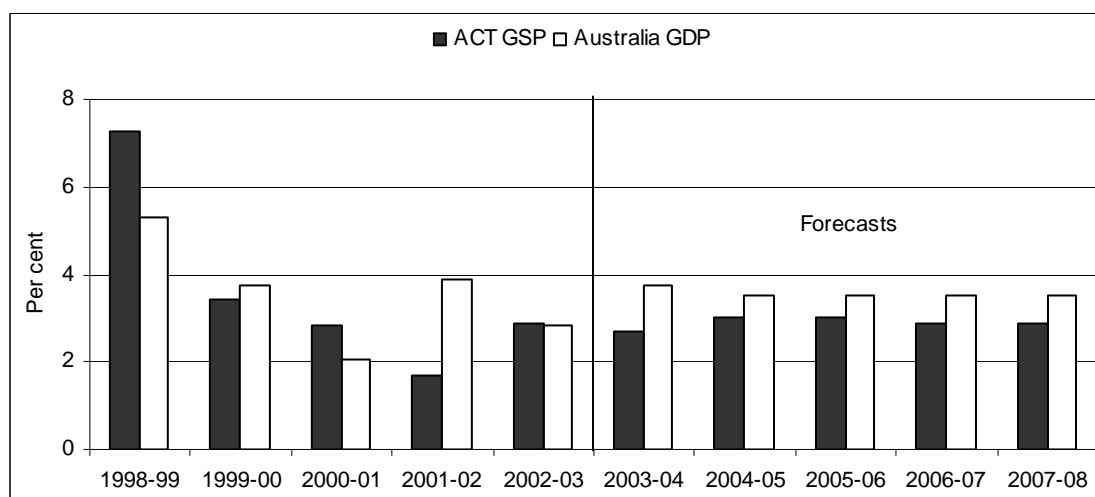
The final component of GSP is taxes less subsidies on production and imports, which accounted for the remaining 8% of GSP in 2002-03. Taxes on production and imports include the GST (from 1 July 2000), wholesale sales taxes (prior to 1 July 2000), excise taxes, payroll taxes, land taxes, local government 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. Examples include export incentive grants, dairy industry stabilisation payments, the phosphate fertiliser bounty, and the Tasmanian freight equalisation scheme.

In 2002-03, ACT GSP amounted to \$15,135m 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 2002-03, ACT GSP grew 2.9%, while nationally Gross Domestic Product (GDP) grew 2.8%. The outlook for GSP remains positive with a growth forecast of 2.7% in 2003-04, lower than the 3.1% forecast in last year's Budget.

Figure 4.1.7
Annual Growth in Value Added (GSP and GDP), ACT and Australia



Sources: ABS Cat. No. 5220.0, 2002-03, and 5206.0, December quarter 2003.

The latest forecast for GSP implies that growth in the ACT in 2003-04 is now likely to lag growth at the national level. The Commonwealth Treasury has revised national growth up to 3.75% for 2003-04 (from 3.25%) to allow for the impacts of the recovery of farm production from the drought and stronger global growth. The lower result for the ACT reflects the fact that Canberra has virtually no agricultural sector and is, therefore, only indirectly affected by the drought recovery, and has limited exposure to overseas growth due to its small export base.

The primary cause for the downgraded forecast for ACT GSP growth is lower than expected employment growth during 2003-04. The 2003-04 Budget forecast employment growth of 1.4%. However, based on actual data to February 2004, employment is now expected to grow at around 0.7% on a year-on-year average basis. Compensation of employees is forecast to contribute around 1.4 percentage points to GSP growth in 2003-04.

GSP growth will 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 (formerly the Yellow Pages Business Index) showing, on balance, businesses are positive about the ACT economy, employment, sales and profits. It is therefore expected that growth in GOSMI will contribute around 1.0 percentage points to growth in GSP, with around 0.3 percentage points to come from taxes less subsidies.

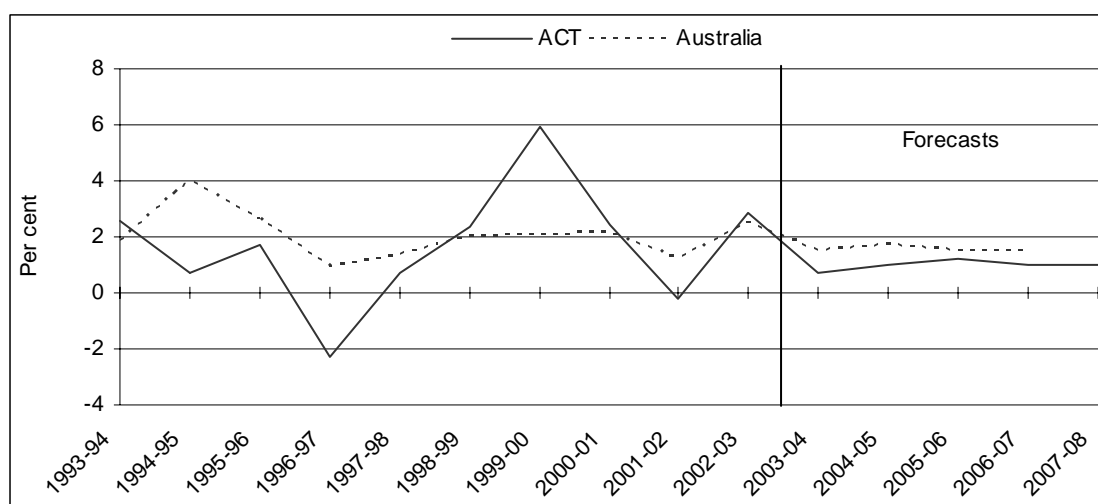
The rate of economic growth in the ACT is forecast to improve in 2004-05 to 3.0% as employment growth accelerates and real wages growth is maintained. Growth in business profits is expected to be steady around the long-run average of 3.4%, painting a business-as-usual scenario for local industry and reflecting that the ACT is unlikely to benefit greatly from the expected strengthening of the global economic recovery.

Labour Market, Wages, Prices and Population

Labour Market

The ACT experienced remarkably strong employment growth in 2002-03, up 2.9% in year-average terms. The first nine months of 2003-04 have seen employment fall by 0.1% in year-average terms and this fall means that employment growth may not meet the 0.7% forecast in year-average terms this financial year. However, strong employment growth is presently being experienced in the hospitality and tourism, construction, and government sectors.

Figure 4.1.8
Annual Employment Growth, ACT and Australia



Sources: ABS Cat. No. 6202.0, Commonwealth Treasury MYEFO 2003-04 and ACT Treasury forecasts

In part, the weaker than expected employment growth in 2003-04 may reflect ACT employers having increasing difficulty in filling job vacancies. Indicators of this possible difficulty include a widening in the gap between the key labour market indicator series: ANZ Job Advertisements and the ABS employment series for the ACT. Also, while total employment growth is sluggish in the ACT, full-time employment appears to be growing at the expense of part-time employment. This pattern may be further evidence of labour shortages in the ACT.

The weaker than expected growth in employment may also be a consequence of the recent increases in official interest rates. The rise in official interest rates in both November and December 2003 is likely to result in households, particularly heavily indebted household, adjusting their spending patterns in.

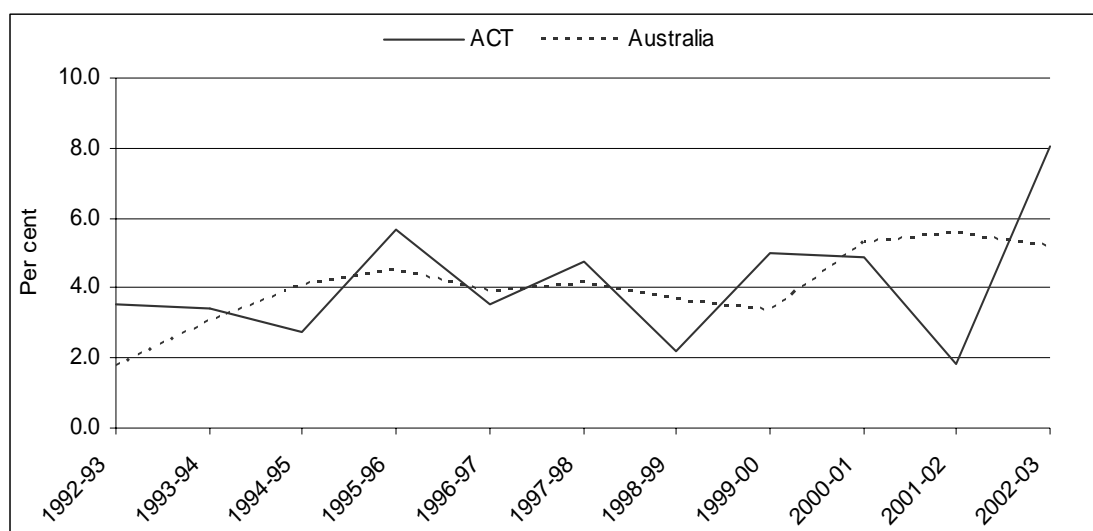
Although employment growth is expected to rise from this year's likely modest rate, the forecasts for 2004-05 and beyond are lower than those contained in last year's Budget. Employment growth forecasts for 2004-05 will also be affected by the ACT and Federal elections, which are expected to be held in late 2004. The key drivers of the lower forecasts are downward revisions to household consumption and private investment due to higher interest rates. However, growth in Commonwealth government outlays has been revised upwards and will tend to support a steady rate of medium-term employment growth.

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 2003, in seasonally adjusted terms, AWOTE in the ACT were \$1,067.30, the highest of any State or Territory and 13.8% above the Australian average of \$937.70.

Figure 4.1.9
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.

Most recently the quarterly growth rate of AWOTE has stalled. Following the average 2% quarterly growth rates recorded in 2002-03, zero growth was recorded in the August quarter 2003 and growth in the November quarter 2003 was a modest 0.8%. This slow-down in the quarterly rate of growth of AWOTE supports year-to-date signs of a modest employment outcome for the ACT in 2003-04.

The combination of employment and wages growth is forecast to contribute around 1.4 percentage points to the 2.7% forecast growth in GSP in 2003-04. However, the weaker than expected employment growth to date suggests the actual contribution may be lower than forecast.

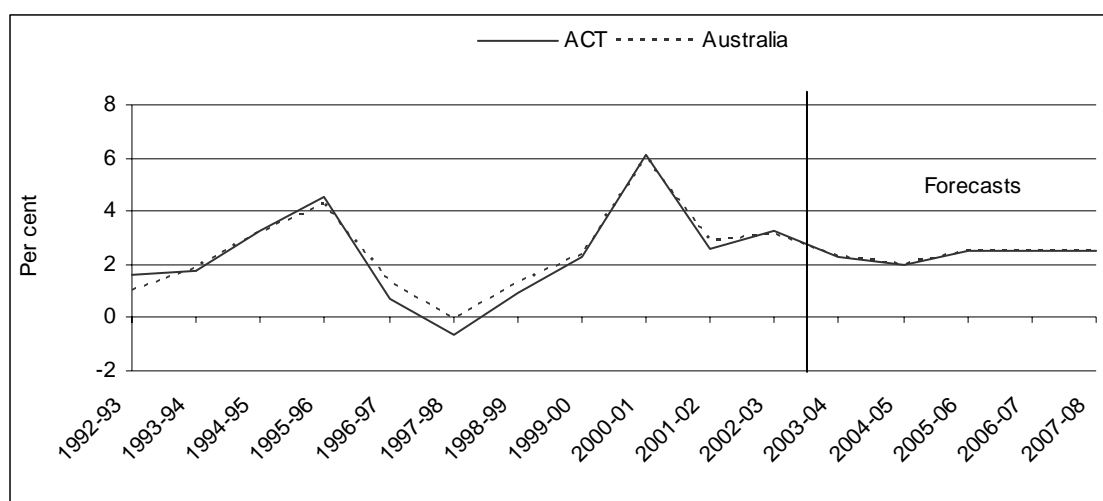
Employment growth is expected to rise from this year's modest rate and, combined with steady wages growth, should see a contribution of around 1.6 percentage points to the 3.0% forecast growth in GSP in 2004-05.

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 2003-04 forecast of 2.25%. Inflation is expected to ease to 2.0% in 2004-05 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 2003 and early 2004, and therefore the inflation dampening effect from this source will not be sustained in the medium term.

Figure 4.1.10
Consumer Price Index, ACT and Australia



Sources: ABS Cat. No. 6401.0 and Commonwealth Treasury

Population

The ACT's population growth rate slowed to 0.4% in 2002-03 following the 0.7% rate recorded in 2001-02. This slow down in growth largely reflects an increase in negative net interstate migration from 1,044 in 2001-02, to negative net interstate migration of 1,644 in 2002-03.

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

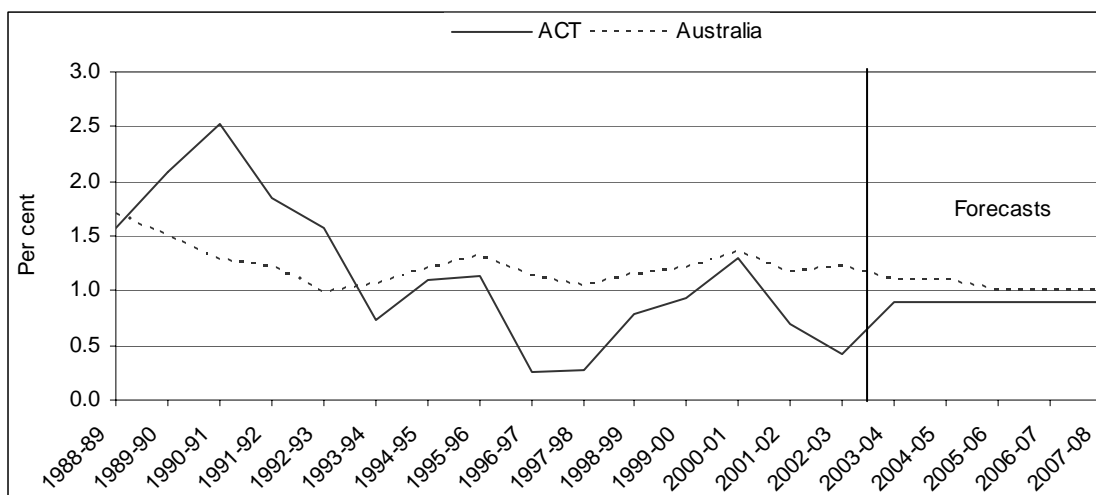
The ACT population is forecast to rise 0.9% in 2003-04, compared with national growth of above 1.0%. However, the latest available population estimates show the annual growth rate of the ACT population, to the September quarter 2003, is only 0.3%. If the current pattern of negative net interstate migration continues the ACT's population will grow by less than the forecast 0.9% in 2003-04.

In 2002-03, the proportion of the ACT population in the 'independent' age group (15-64 years) is 71.1%. The proportions of the population in the 'dependent' age groups 0-14 and 65+ are 19.8% and 9.1%, respectively.

In 2002-03, 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 40.6%, slightly lower than the 41.2% 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.

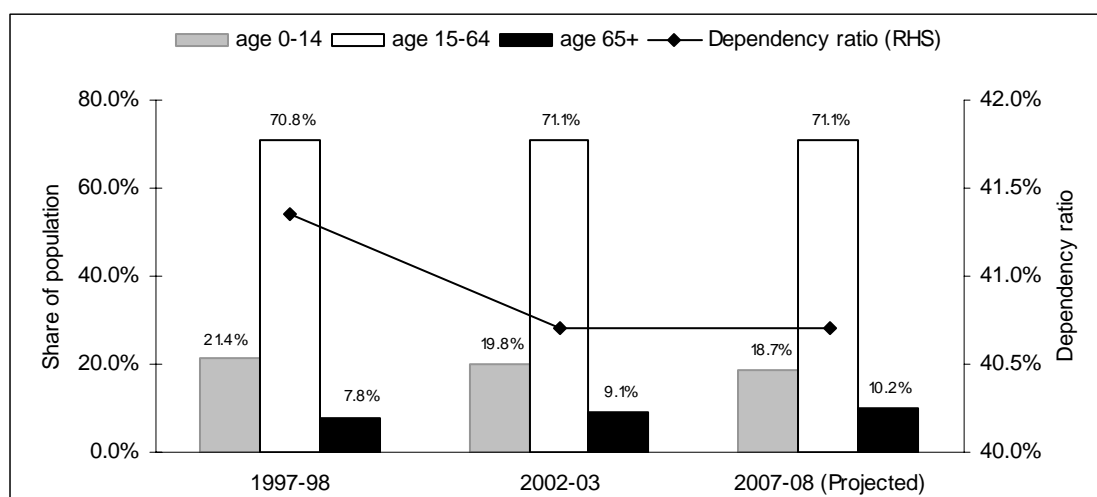
Looking forward five years, the dependency ratio is forecast to remain steady at 40.7% as the 15-64 proportion remains steady at 71.1% and the rise in the 65+ proportion (up from 9.1% to 10.2%) is offset by the fall in the 0-14 proportion (down from 19.8% to 18.7%).

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 bushfire caused an estimated \$350 million 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 effect 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.

That is, 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 unavailable.

The estimated \$350 million damage to property, including \$250 million in damage to housing, represents around 1.6% of the forecast for total consumption and investment expenditure in the ACT in 2003-04 (i.e., around 1.6% of SFD). However, the direct impact on SFD will be less than 1.6% 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
- the reparation activity will extend into 2004-05 and beyond.

With a direct effect on SFD of less than 1.6%, 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.

Economic activity in the ACT related to bushfire reparation will come from three sources.

A major source of activity relates to private dwelling investment as bushfire-damaged homes are rebuilt. As at the end of February 2004, 266 (bushfire related) Development Applications had been lodged, 252 had been approved and 65 Certificates of Occupancy had been issued. The number of Certificates of Occupancy issued is expected to rise steadily as the dwellings currently under construction are completed. These indicators show a good deal of the economic activity related to the rebuilding of homes will occur in 2004-05 and beyond.

A second source of economic activity relates to public investment by ActewAGL as it rebuilds bushfire-damaged infrastructure including the Chapman reservoir, power poles, the Molonglo sewerage plant, and electricity substations. ActewAGL is also constructing two new water treatment plants at Mount Stromlo and Googong, worth an estimated \$40 million and \$16 million respectively, as a result of ash from the bushfires contaminating the ACT's water supply.

The third source of economic activity relates to general ACT government consumption expenditure related to the bushfire recovery. The ACT Government will spend an estimated \$37.4 million on bushfire recovery in 2003-04. This estimate does not include reparations made by ActewAGL to repair bushfire-damaged infrastructure. The ACT Government will spend an estimated \$56 million on bushfire recovery in the years 2004-05 to 2006-07. However, this bushfire related expenditure, will, to some extent, 'crowd-out' ACT government expenditure that would otherwise have taken place.

In addition to the direct effects on economic activity, there will be indirect or flow-on effects from the increased demand for output from other industries (eg., industries supporting the construction industry) and changes in income. However, these indirect economic effects will be offset by the same factors offsetting the direct economic effects.

