1.2 ECONOMIC SUMMARY

The ACT economy, along with other States, has shared in the decline in economic activity during 2000-01. This has been the result of a number of factors including the lagged effect of increased interest rates during 1999-2000 and the pull forward of investment in dwellings associated with the introduction of the GST. The main factor, however, has been the reduction of Public Final Consumption during the year.

During the next year these effects are likely to be reversed as the impact of recent interest rate reductions begins to stimulate activity in the housing sector. Household Final Consumption is forecast to continue its growth, underpinned by steady growth in employment and wages. Public Final Consumption is also expected to expand again in the ACT. Business conditions in the ACT remain sound with high levels of job vacancies and with ACT businesses expecting economic conditions to improve through 2000-01.

The economic forecasts underpinning the 2001-02 Budget are summarised below.

Table 1.2.1
ACT Economic Forecasts

	1999-00 (Actual)	2000-01 (Forecast)	2001-02 (Forecast)	3 Year Planning Assumptions [b] 2002-03	2003-04 (Average annual growth)	2004-05
	Percentage change on the previous year [a]					
Gross State Product	4.9	4.25	4.6	4.4	4.4	4.4
Employment Growth	4.9	2.4	1.3	2.5	2.5	2.5
Consumer Price Index[d]	2.3	6.0	2.25	2.25	2.25	2.25
State Final Demand	12.0	-1.0	3.0	2.7	2.7	2.7
Population[c]	0.5	0.7	0.7	0.8	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) The planning assumptions used in this table represent the estimated average annual change for the period 2002-03 to 2004-05. As such they do not represent expectations of actual annual changes.

(c) As at June each year.

(d) Represents forecast 'headline' CPI inflation in 2000-01, including factors affected by the introduction of *The New Tax System*. The underlying increase in the CPI in 2000-01 is expected to be 3.25%.

Gross State Product is an income based measure that is produced by summing wage and salary income, and profits from businesses. In the ACT, wage and salary income comprises the majority of GSP, over 60% in 1999-2000. Wage and salary income is expected to remain buoyant for the remainder of 2000-01, as both employment and wages are expected to grow over the year.

Business expectations about their prospects and those for the ACT economy, as reported in the Yellow Pages Small Business Index (February 2001), and ACT Region Chamber of Commerce and Industry business expectations survey (April Quarter 2001), remain positive for next year. The business expectation survey revealed that 75% of businesses surveyed believed that the ACT economy would grow at its current rate or higher. In addition to this, 63% expect their sales revenue to remain the same or increase in the April quarter, and 64% expect their profits to be stable or increase.

The contraction in aggregate demand (SFD) is primarily the result of reductions in expenditure by the Commonwealth Government, in the area of defence related expenditure. This would appear to be expenditure primarily directed to goods and services provided from outside the ACT. Accordingly, the impact of this reduction is not expected to flow through to the same extent in respect of ACT incomes as measured by GSP.

The major difference between forecasts of the national economy and the Territory for 2000-01 is the assumption of higher levels of growth in wage and salary income for the ACT.