

Australian Business Economists



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Investment to drive growth in 2012, RBA to ease further

RESULTS OF ANNUAL SURVEY OF ABE EXECUTIVE COMMITTEE

The results of this survey will be discussed by the ABE Executive Committee at our Annual Conference to be held in Sydney this afternoon. See abe.org.au > events

For further information contact:

Tony Westmore, 0419 256 339 OR Joshua Williamson, 02 8225 4904

Stephen Halmarick, Chairman, Australian Business Economists, commented:

I am pleased to release the annual survey of financial and macroeconomic forecasts made by members of the Executive Committee of the Australian Business Economists (ABE). Please note that some members were unable to contribute to the survey due to their positions in the public sector.

Highlights of the ABE Annual Survey of the Executive Committee

- The Committee expects Australian economic growth to accelerate in 2012, after a weather affected 2011. From an estimated growth rate of 1.4% in 2011, **median GDP growth is forecast to rise to 3.3% in 2012 and strengthen further to 3.5% in 2013.**
- **Growth is expected to continue to be driven by a very strong increase in business investment.** This is forecast to increase by a further 12.4% in 2012, from a strong 11.6% in 2011 and still remain solid at 9.5% in 2013 thanks to the on-going pick-up in mining related investment.
- With a large proportion of Australia's capital equipment being imported, **overall imports are expected to be strong.** For 2012 export growth (9.0%) is expected to just outpace import growth (8.5%), leading to a small (0.1%) positive contribution to economic growth over the year. For 2013 the situation is expected to be reversed, with import growth outpacing export growth, leading to a small negative contribution.
- **Household consumption is forecast to remain relatively solid in 2012, at the same 3.0% pace of growth as in 2011.** Lower interest rates should help the consumer into 2013, with growth of 3.2% expected for that year.

- **Dwelling investment is forecast to continue to slow in the year ahead**, going from an estimated 1.6% in 2011 to 0.0% in 2012, before accelerating again to 4.0% in 2013. The range of forecasts around the median is quite large however, with the forecasts for 2012 spanning -2.0% to 3.8%.
- **Employment is expected to grow more in-line with labour supply.** Employment growth in 2012 is expected to be 1.4%, down from an estimated 1.7% in 2011, before accelerating again to 2.0% in 2013. This pace of employment growth should see the unemployment rate remain little changed at 5.2% at the end of 2012, and a touch lower at 5.0% by year-end 2013. With the unemployment rate steady around a relatively low level, the Labour Cost Index is expected to stay within a 3.7%-3.9% range over 2012 and 2013.
- **Headline Inflation is forecast to be at the top of the RBA's 2.0% to 3.0% target band across the forecast horizon.** However, Underlying inflation is expected to remain well within the RBA's target band at 2.6% in 2012 and 2.9% in 2013.
- **With an economy that is growing strongly, the Federal Government's headline budget deficit is expected to shrink.** The improvement should result in a reduction from a deficit of -\$51.1 billion in 2010-11 to -\$25 billion for 2011-12. However, the budget is still expected to be in deficit by -\$5.0 billion in 2012 - 13, the year the government is forecasting a return to surplus. The range of Budget outcomes forecast by the Committee for 2012 - 13 is, however, relatively wide at a deficit of -\$10 billion to a surplus of \$2 billion.
- **From the current cash rate of 4.5%, the Committee looks for a further easing to 4.25% prior to mid-2012**, with the cash rate then forecast to remain at this level by year-end 2012. The range of forecasts for end-2012 is, however, relatively wide at 3.75% - 4.75%.
- **For 2013 the Committee consensus expects a tightening of monetary policy to resume**, with a 4.75% cash rate expected at year-end 2013. Once again, however, the year-end 2013 forecast is in a wide range of 3.75% - 5.0%.
- **The 3-year/10-year bond yield curve is forecast to flatten from its current level.** Thanks to a 10-year bond yield (forecast 4.45%) that rises at a slower rate than the 3-year bond yield (forecast 4.10%), the median forecast is for the yield curve to flatten to 35 bps by June 2012, but then steepen out to 45 bps by December 2012 (3 year 4.40%, 10 year 4.85%) and then be little changed at 40 bps by December 2013 (3 year 5.0%, 10 year 5.4%).
- **The Australian dollar is forecast to be little changed against the US Dollar in 2012.** The median forecast of the Committee is for the exchange rate to be at \$US1.03 as at June 2012 and year-end 2012. After this date, the median forecast is for a decline to \$US0.98 by December 2013.
- **Australian equities are forecast to recover some lost ground.** The median forecast for the ASX 200 is 4,500 points by June 2012, before rising to 5,000 points by December 2012 and 5,125 points by December 2013.

This year the Committee was also asked a number of questions around both the local and global economic outlook.

- **On Europe, the Committee remains unconvinced that the leadership of Europe will be able to 'solve' the situation without further damaging developments.** Europe is generally considered to get worse before it gets better.
- **In Asia, the Committee generally sees the slowdown in the region as a cyclical event**, due mainly to previous policy tightening as a result of rising inflation. The flow-on from this is that Asian authorities have plenty of room to ease policy as and when required and so a "soft-landing" is the most likely scenario for Asia.

- **In Australia, the Committee felt strongly that it is not the government's role to shield the "slower" parts of the Australian economy from the structural changes being driven by the terms of trade boom.** Policies that improve productivity reduce red-tape and allow more flexibility would help, however, smooth the transition path for some sectors of the economy.
- **The slowdown in the Australian consumer was seen as both a cyclical and structural event,** with the savings rate expected to drift lower in the coming years. But household deleveraging could still have some way to go and the uncertainties in the global economy could keep the Australian consumer cautious for a while yet. Further rate cuts by the RBA will, however, help.
- **The Committee expressed concern over the declining level of productivity in Australia.** A key focus for the government, at both Federal and State levels, should be the provision of infrastructure, especially in ports, transport and communications. Labour productivity could be boosted by a return to higher skilled immigration levels and a better focus on education and training. A return to flexible labour market regulation would also likely be beneficial. Meaningful tax reform, in-line with the recommendations of the Henry Review was also seen as a priority.
- **As shown by the forecasts above, the Committee was generally of the view that the government would not achieve its objective of returning the budget to surplus by 2012/13.** While the Committee agreed that maintaining Australia's strong fiscal position was critical, the difference between a small deficit or surplus from year to year would not have a material impact on the overall economy or the financial markets.

Table 1: ABE Survey of the Executive Committee, Summary

(All forecast variables are annual average % change unless otherwise stated)

	2010	2011(e)	2012			2013																				
	<i>Actual</i>	<i>Median</i>	Median	Low	High	Median	Low	High																		
National Accounts																										
Private Consumption	2.8	3.0	3.0	1.8	5.1	3.2	2.6	4.8																		
Dwelling Investment	4.2	1.6	0.0	-2.0	3.8	4.0	1.0	7.6																		
Business Investment*	-0.1	11.6	12.4	7.5	18.5	9.5	7.0	15.0																		
Inventories (ppt contribution)	0.4	0.4	-0.4	-0.7	-0.3	0.0	-0.1	0.0																		
Exports	5.7	-1.4	9.0	6.2	11.3	7.5	6.0	10.4																		
Imports	13.7	10.5	8.5	5.1	14.9	8.4	5.0	13.4																		
Net Export (ppt contribution)	-1.6	-2.8	0.1	-1.5	0.5	-0.4	-1.4	0.5																		
GDP	2.7	1.4	3.3	2.8	3.8	3.5	3.0	4.1																		
Labour and Inflation																										
Employment	2.7	1.7	1.4	0.3	1.8	2.0	1.0	2.3																		
Unemployment Rate (end period)	5.0	5.3	5.2	5.0	5.8	5.0	4.5	5.5																		
Labour Price Index	3.3	3.8	3.7	3.4	4.2	3.9	3.5	4.5																		
CPI	2.8	3.5	3.0	2.4	3.3	3.1	2.5	3.6																		
Underlying CPI	2.8	2.5	2.6	1.9	2.8	2.9	2.5	3.2																		
Other																										
Terms of Trade	16.4	14.1	-1.7	-10.0	3.5	-5.9	-10.9	13.0																		
Current Account Deficit (% of GDP)	-2.6	-2.0	-2.0	-4.1	2.1	-2.5	-6.2	3.8																		
Headline Cash Budget (\$Abn)**		-51.1	-25.0	-30.0	-18.0	-5.0	-10.0	2.0																		
<table border="0" style="width: 100%; text-align: center;"> <tr> <td></td> <td>2011</td> <td>Jun-12</td> <td>Dec-12</td> <td colspan="2">Dec-13</td> <td colspan="3"></td> </tr> <tr> <td></td> <td><i>Current</i></td> <td>Median</td> <td>Median</td> <td>Low</td> <td>High</td> <td>Median</td> <td>Low</td> <td>High</td> </tr> </table>										2011	Jun-12	Dec-12	Dec-13						<i>Current</i>	Median	Median	Low	High	Median	Low	High
	2011	Jun-12	Dec-12	Dec-13																						
	<i>Current</i>	Median	Median	Low	High	Median	Low	High																		
Financial (all end period)																										
Cash Rate	4.50	4.25	4.25	3.75	4.75	4.75	3.75	5.00																		
3yr Government Bond Yield	3.27	4.10	4.40	3.60	5.00	5.00	4.40	5.40																		
10yr Government Bond Yield	4.02	4.45	4.85	4.20	5.25	5.40	4.80	5.75																		
AUD/USD	1.00	1.03	1.03	0.88	1.10	0.98	0.95	1.10																		
ASX 200	4177	4500	5000	4350	5300	5125	5000	5500																		

*Excluding second hand asset purchases

**Financial year (2011 is 2010/11 and so on)

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Australian Business Economists ABN 60 959 647 104

PO Box 7267 Bondi Beach 2026 Australia

tel: 0419 256 339 fax: 02 9365 6067

email: info@abe.org.au web: www.abe.org.au