

# Australian Business Economists



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## BUSINESS INVESTMENT TO TAKE-OFF IN 2011, CONTINUING THE GROWTH STORY

### RESULTS OF ANNUAL SURVEY OF ABE EXECUTIVE COMMITTEE

The results of this survey will be discussed by a panel of ABE Executive Committee members at our Forecasting Conference to be held in Sydney this afternoon. See [abe.org.au](http://abe.org.au) > events

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*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 remain strong. From an estimated growth rate of 3.3% in 2010, **median GDP growth is forecast to rise to 3.5% in 2011 and remain at this rate in 2011**. This growth rate is around what could be considered "trend" or "potential" growth for Australia.
- **Growth is expected to be driven by a very strong increase in business investment**. This is forecast to increase by 13% in 2011 and 11% in 2012 thanks to a solid pick-up in mining related investment. There was not a lot of variation around the median of committee members forecasts, showing strong consensus for this to lead economic growth in 2011 and 2012.
- With a large proportion of Australia's capital equipment being imported, **overall imports are expected to be strong, just outpacing the growth in exports to keep net-exports negative**. The forecasts are for a 0.5 of a percentage point deduction from GDP growth in 2011 and a 0.2 of a percentage point deduction in 2012. That said, exports are forecast to increase by a median of 5.8% in 2011 and 6.7% in 2012.
- **Household consumption is forecast to remain solid but not return to pre GFC growth rates**. Higher interest rates, some ongoing deleveraging and a more cautious attitude to spending results in a forecast for household consumption growth of 3.3% in 2011 and 2.7% in 2012. However, this pace of spending growth is closer to the average over the current eighteen year period of Australian economic expansion.

- **Dwelling investment is forecast to slow**, going from an estimated 4.9% in 2010 to 3.8% in 2011 and 2.5% in 2012. The range of forecasts around the median is quite large however, with the forecasts for 2011 spanning -1.0% to 8.6%.
- **Employment is expected to grow more in-line with labour supply.** Employment growth in 2010 is expected to be 2.6% and the median forecast is 2.5% in 2011 before moderating marginally to 2.1% in 2012. Ongoing employment gains will place downward pressure on the unemployment rate, which is forecast to consistently move below 5.0% in 2011, settling at a median 4.8% through to the end of 2012. With the unemployment rate low, some upward pressure on wages will result in the Labour Cost Index rising from a 2010 estimate of 3.3% to a median 3.9% in 2011 and 4.1% in 2012.
- **Inflation is forecast to be at the top of the RBA's 2.0% to 3.0% target band across the forecast horizon.** At no stage was the median forecast for inflation to be below 3.0%.
- **With an economy that is growing strongly, the Federal Government's headline budget deficit will shrink.** The improvement should result in a reduction from -\$56.5 billion in 2009-10 to -\$35 billion for 2010-11 before reducing further to -\$6.5 billion by the end of 2011-12. These median forecasts are lower than those contained in the Federal Government's Mid-Year Economic and Fiscal Outlook (MYEFO). The difference between the ABE Committee's median forecasts and the MYEFO is \$13.5 billion in 2010-11 and \$8.6 billion in 2011-12.
- **The Committee does not look for any further monetary tightening from the RBA for at least the next six months.** The median forecast of the Committee is for the Cash Rate Target to be 4.75% at June 2011. However, a further 75 bps of tightening is expected over the subsequent six months, which would take the cash rate target to 5.50%. From this point to the end of 2012, the Committee's median forecast was for one further 25 bps hike that leaves the cash rate target at 5.75%.
- **The 3-year/10-year bond yield curve is forecast to flatten from its current level.** Thanks to a 10-year bond yield that rises at a slower rate than the 3-year bond yield, the median forecast is for the yield curve to flatten to 25 bps by June 2011, to 10 bps by December 2011 and to invert to 5 bps by December 2012.
- **The Australian dollar is forecast to depreciate against the US Dollar and on a Trade Weighted Index (TWI) basis in 2011.** The median forecast of the Committee is for the exchange rate to be at parity with the US Dollar and 73 points on a TWI basis at June 2011. After this date, the median forecast is for a decline to USD 0.93 and 70.5 points respectively by December 2011 and for further moderation to USD 0.87 and 65.5 points respectively by end of 2012.
- **Australian equities are forecast to continue rising.** The median forecast for the ASX 200 is 4,800 points by June 2011, before rising to 5,300 points by December 2011 and 5,500 points by December 2012.

## ABE Executive Committee 2010

### Chairman

Mr Stephen Halmarick Head of Investment Markets Research, Colonial First State

### Secretary

Mr Warren Hogan Chief Economist, ANZ

### Treasurer

Mr Scott Haslem Chief Economist, UBS

### Assistant Secretary & Treasurer

Mr Josh Williamson Senior Economist Investment Research & Analysis, Citi

### Committee Members

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Mr Adam Donaldson	Head of Debt Research, Commonwealth Bank of Australia
Mr Alex Erskine	Chief Economist, Australian Securities & Investments Commission
Mr Bill Evans	General Manager Economics, Westpac Banking Corporation
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Dr Tony Richards	Head of Economic Analysis, Reserve Bank of Australia
Mr Alex Schuman	Senior Economist, New South Wales Treasury Corporation
Mr Stephen Walters	Chief Economist, J. P. Morgan
Mr Geoff Weir	Managing Director, Financial Sector Services Pty Ltd

Annual Survey of ABE Executive Committee Members

**Table 1: ABE Survey of the Executive Committee, Summary**

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

	2009	2010	2011			2012		
	Actual	Estimate	Median	Low	High	Median	Low	High
<b>National Accounts</b>								
Private Consumption	1.7	3.4	3.3	1.9	3.9	2.7	2.2	3.9
Dwelling Investment	-4.5	4.9	3.8	-1.0	8.6	2.5	-2.3	4.3
Business Investment*	-2.7	1.7	13.0	11.0	13.9	11.0	9.0	15.6
Inventories (ppt contribution)	-0.5	0.5	0.0	-0.4	10.2	0.0	0.0	12.6
Exports	0.9	3.9	5.8	0.2	8.0	6.7	0.2	8.7
Imports	-8.3	13.1	8.0	5.6	10.6	7.0	5.4	10.0
Net Export (ppt contribution)	2.0	-1.9	-0.5	-1.3	8.6	-0.2	-1.1	9.4
GDP	1.2	3.3	3.5	-0.8	3.8	3.5	-1.3	4.0
<b>Labour and Inflation</b>								
Employment	0.7	2.6	2.5	2.0	2.7	2.1	1.9	2.4
Unemployment Rate (end period)	5.7	5.0	4.8	4.5	5.0	4.8	4.1	5.3
Labour Price Index	3.6	3.3	3.9	3.8	4.6	4.1	3.8	4.5
CPI	1.8	3.0	3.0	2.9	3.3	3.0	2.8	3.4
<b>Other</b>								
Current Account Deficit (% of GDP)	-4.1	-2.8	-2.5	-3.3	-1.9	-3.3	-4.8	-2.4
Headline Cash Budget (\$Abn)**	-31.3	-56.5***	-35.0	-48.5	-32.0	-6.5	-15.1	5.0
		Jun-11	Dec-11			Dec-12		
	Actual****	Median	Median	Low	High	Median	Low	High
<b>Financial (all end period)</b>								
Cash Rate	4.75	4.75	5.50	5.00	5.75	5.75	5.25	6.50
3yr Government Bond Yield	4.94	5.00	5.50	5.10	5.90	5.75	5.10	6.50
10yr Government Bond Yield	5.44	5.25	5.60	5.00	5.70	5.70	5.25	6.20
AUD/USD	0.99	1.00	0.93	0.87	0.98	0.87	0.82	0.94
TWI	73.6	73.0	70.5	67.2	72.0	65.5	62.8	70.0
ASX 200	4727	4800	5300	4500	5500	5500	4850	6200

\*Excluding second hand asset purchases

\*\*Financial year (2010 is 2009/10 and so on)

\*\*\*Actual 2010 outcome

\*\*\*\*As at 4:30 pm on 07/12/10

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