



Global economy

The near term global economic outlook remains gloomy but there are some 'green shoots' in an otherwise bare paddock.

- The global economy contracted further in the first quarter of 2009. Economic growth forecast for selected countries and groups of countries are shown in Table 1.

Table 1: International GDP growth forecasts^a – Australian Treasury

Countries	Actual	Economic growth projections		
	2008	2009	2010	2011
Japan	-0.7	-6.0	0.5	0.75
China	9.0	6.25	8	8.5
USA	1.1	-3	.25	1.75
Euro Area	0.7	-4.0	0	1.25
NIEs ^b	1.6	-4.75	2.75	3.25
ASEAN-5 ^c	4.6	-1.25	2.5	3.75
India	7.4	4.0	4.75	5.75
Australia's major trading partners	2.7	-2	2.5	3.25
Advanced economies	0.9	-3.75	0.5	1.75
World	3.2	-1.50	2.25	3.5

(a) World, Euro area and advanced economies growth rate based on using PPP method and others are calculated using export trade weights.

(b) Newly Industrialised Economies (NIEs) – Hong Kong, South Korea, Singapore and Taiwan.

(c) Indonesia, Malaysia, the Philippines, Thailand and Vietnam.

Source: Australian Treasury May 2009.

- There are signs in some countries that the rate of contraction may be slowing down. The growth in the Chinese economy is picking up speed and the Chinese and Korean industrial production have regained losses incurred earlier. There are also some early signs of stabilisation in the US markets (strengthened financial conditions and a pickup in household and business confidence) but output growth outlook is gloomy. Some experts claim that China will most probably be the first major economy to recover the global recession. On the other hand, Japan's economy shrank at a record pace in the March quarter 2009. Japan's GDP fell by 4% and this equates to an annualised fall of 15.2%.

Australian economy

The Australian economy is in a mild recession and is forecast to withstand global recession better than most other advanced economies.

- In its latest statement on economic outlook the Federal Treasury forecasts Australian real GDP to contract by 0.5% in 2009-10, as a consequence of the deep global recession. This contraction will largely be due to strong declines in business investment and exports and to a lesser extent a fall in household consumption. The quarterly GDP growth is shown in Table 2. The strong growth in public investment is abating greater economic slow down. The recovery in the Australian economy is forecast to emerge over 2010-11 with economic growth at 2.25% and reaching 4.5% in 2012-13 (average annual growth rate of 3.75% from 2010-11 to 2012-13). See graph in Appendix A.
- The Treasury forecast shows household consumption contracted by 0.25% in 2009-10; business investment by 18.5%; exports by 4% and imports by 6.5%. Dwelling investment is expected to remain flat in 2009-10 but is expected to make a strong recovery in 2010-11 with growth of 11.5%.
- The Westpac-Melbourne Institute Leading Index points to continued economic contraction. The index fell to -5.1% (annualised growth rate) in February 2009, far below its long term trend of 2.9%. The index has declined from 0.5% in September 2008 to -5.1% in February 2009. This run of negative reads is consistent with the lead up to previous recessions.

Table 2: Australian GDP, quarterly growth

Qtr	RBA	Fed. Treasury	Westpac
Mar 09	-0.5	-0.5	-0.2
Jun 09	-0.4	-0.3	-0.3
Sep 09	-0.4	-0.2	0.0
Dec 09	0.2	0.1	0.0
Mar 10	0.3	0.3	0.3
Jun 10	0.3	0.5	0.5
Sep 10	0.6	0.6	0.7
Dec 10	0.8	0.7	0.8

Source: Westpac May 09

- Commodity prices are expected to fall significantly in 2009-10 and Australia's terms of trade are forecast to fall by 13.5% in 2009-10 to 2006-07 levels.
- Consumer sentiment fell in May 2009 by 4.3% to 88.8 points compared to March 2009 (consumers are optimistic if the index is >100 and pessimistic if the index is <100). This is the second biggest fall in ten years. The most probable reason is that people have reacted negatively to the Federal Budget.

- The ACCI index of Small Business Conditions deteriorated over the March quarter 09 with the index falling to 33.1 (a level <50 means the variable is falling and >50 indicates the variable is increasing).
- The RBA at its Board meeting in the first week of May 09 decided to leave the cash rates unchanged at 3.0%. In a statement released subsequent to the Board decision RBA stated: *“Monetary policy has been eased significantly. Market and mortgage rates are at low levels by historical standards and business loan rates are below average, reducing debt-servicing burdens considerably. Much of these changes are yet to be observed. The stance of monetary policy, together with the substantial fiscal initiatives, will provide significant support to domestic demand over the period ahead. In assessing whether further reductions in the cash rates are required over the period ahead, the Board will monitor how economic and financial conditions unfold, and how they impinge on prospects for a sustainable recovery in economic activity.”* Some experts are of the view the stability of rate settings would increase confidence to consumers and businesses, and any further rates cut could undermine fragile confidence levels rather than further stimulate the economy.
- Business confidence remains low (12% for small and medium sized business in February 2009).
- The unemployment rate decreased unexpectedly to 5.4% in April 2009, a fall of 0.3 percentage points from March 09 figure of 5.7%. Experts deem this to be a statistical blip rather than a turn around in unemployment levels.
- ANZ job ads declined by 8.5% in March 2009, taking the annual fall to 45%. The latest Federal Treasury forecast is for unemployment to rise from 6% in 2008-09 to 8.25% in 2009-10 and to peak at 8.5% in 2110-11. Access Economics predicts unemployment to peak to around 8.4% by 2010-11 before easing somewhat.
- Research conducted for the specialist employment group Clarius found skilled unemployment increased by 48.2% in the March quarter 09. The number of skilled people (professionals, associate professionals and trades people) out of work rose by 43,500 to 133,700. The Clarius Skills Index in March 09 was 100.4, down from 102.5 in the previous quarter.
- Australia’s construction sector remained subdued during April 2009. The AIG-HIA Performance of Construction Index rose by 6.2% to 36.5 compared to March 2009, but remained below the key 50-point level that separates expansion from contraction.
- BIS Shrapnel’s *Engineering Construction in Australia, 2008/09 – 2022/23* report found that while federally-funded work is set to increase strongly, it will be more than offset by falling activity from other levels of government and a much larger fall in privately-funded work. In total, BIS Shrapnel is forecasting a decline in engineering construction activity of 20 per cent, which is almost \$14 billion in inflation-adjusted prices, in the two years to 2010/11. This decline will come mostly from privately-funded work.
- The boosted first home owners grant will be extended until 30 September and will provide \$21,000 for new homes and \$14,000 for existing homes. Following this, \$14,000 will be offered for new homes and \$10,500 for established homes.
- HIA-CBA First Home Buyer Affordability Index improved by 14.6% in the March quarter 09. The index improved considerably in all cities and regional areas (NT is not included in the survey and excluded from the index).
- The federal budget for 2009-10 was brought down in mid-May 2009. In essence the budget targets jobs creation by investing in infrastructure development. A total of \$22 billion has been allocated for infrastructure development of which \$8.5 billion is for rail, road and port infrastructure needs. The government has forecast an estimated budget deficit of \$58 billion for 2009-10. The government predicts a return to budget surplus in 2015-16, with net debt peaking at 13.6% of GDP in 2014.

- The Overseas Arrivals and Departures (OAD) data from the Australian Bureau of Statistics (ABS) for Australia confirms industry reports of ongoing contraction of international visitation. Data indicates a decrease in total arrivals (down 4.9% or 25,100 less visitors) in March 2009 compared to March 2008. Both the Western Hemisphere (down 7%) and the Eastern Hemisphere (down 1.4%) markets contributed to the decrease. All NT core markets, Japan, the United Kingdom, the United States and Germany recorded declines in visitors.
- The Australian share markets are improving gradually but remain volatile.
- Decline in demand and economic growth in Australia's key trading partners such as Japan, China and USA is bearing down on the Australian economy.

Northern Territory economy

Economic growth is forecast to moderate in 2009-10

- Both Access Economics and NT Treasury estimate NT economic growth in 2008-09 to be around 4.1%. The NT Treasury latest forecast economic growth for the NT shows that the Territory economy will slow down to 2% in 2009-10 and improve to 3.25% in 2010-11. The outlook is based on approved known projects. Slower growth in the next few years is expected largely due to lower private sector investment expenditure, lower tourist numbers and a reduction in the demand and value of resource commodities, particularly in mineral and energy sectors. However, an increase in public sector expenditure will partly offset the decline in private investment and support economic growth and employment. The Territory's longer term prospects remain excellent.
- The Territory's 2009-10 Budget was delivered in early May 2009 and the focus, like the federal budget, is on infrastructure development to 'create and sustain jobs, increase economic efficiency and improve our quality of life'. A record \$1.3 billion will be spent on infrastructure development. The budget also includes a Tourism Stimulus Response package of \$9.3 million.
- The Territory has received funding for infrastructure development and other initiatives in the 2009-10 federal budget, including \$50 million for Darwin port, \$34 million for Menzies School of Health Research, \$28 million for a new medical school, \$18.6 million for short term patient accommodation, \$13.6 million for the Alice springs hospital, \$30.7 million for the Australian Centre for Indigenous Knowledge and Education, and funding for SIHIP, Close the Gap, and education infrastructure.
- Exports (merchandise) from the NT slowed in March 09 (-10 %) compared to February 09. However, in year on year terms, the export of merchandise goods increased by 58% (original data) in March 09. Although merchandise imports declined in March 2009, they increased by 74% in year on year terms. In year on year terms the Territory's merchandise trade surplus increased by 33.4%.
- Retail sales are holding up better than other jurisdictions. Retail sales, seasonally adjusted, increased by 4.2 % in March 2009 compared to February 2009 and in year on year terms retail sales (original and not seasonally adjusted) increased by 13.2%, and increased by 20.1% compared to March 2008.
- Business confidence in the NT is improving, 43% in February 2009 (24% in November 2008) compared to 12% nationally.
- Construction work done declined by 36% (seasonally adjusted) in the March quarter 2009 compared to December quarter 2008. In the year to March 2009, total construction work done has increased by 45.4%. Works in pipeline for total building work done (which excludes engineering construction activity) in annual terms decreased by 27.9%. Stringent credit conditions and/or growing risk aversion are impacting on the construction of new projects. The roll-out of the second stimulus package will boost construction activities.

- Labour market remains steady:
 - Unemployment rate (4.1% April 2009) - unchanged from last month's revised figure. The Territory's unemployment is second lowest among all Australian jurisdictions, behind the ACT (2.8%).
 - Employment grew by 0.6% in April 2009 compared to March 2009.
- Increasing population – the Territory's population grew by 0.6% in the September quarter 2008, and by 2.2% on an annual basis (third highest among all Australian jurisdictions).
- Weaker housing sector but improving:
 - Residential building approvals increased by 5.7% (trend) in March 2009 and on an annual basis increased by 3.4%. Year on year approvals declined by 31.4% (original terms). The low levels of affordability, land availability and tighter credit conditions are constraining demand. Nationally residential building approvals increased by 0.4%.
 - Dwelling commencements increased 92.5% in the December quarter 2008 but decreased by 26.4% for the year 2008. The turnaround in the December quarter was expected and was due to lower interest rates and government home ownership incentives.
 - Housing finance commitments (seasonally adjusted) increased by 9.4% in March 2009 compared to February 2009 and on an annual basis increased by 27.5% and declined by 13.4% in year on year terms (original). However, over the last six months housing finance commitments has trended upward.
 - Housing affordability is still low but improving: 40.7 in the December quarter 2008 – up from the September quarter (due to lower interest rates). Affordability declined by 5.1% on an annual basis and declined by 9.7% in year on year terms.
 - The value of non-residential building approvals declined by 56.7% to \$327 million in the year to March 2009.
 - The Northern Territory Government will extend the \$14,000 Buildstart scheme to 31 December 2009. The original deadline was 30 June 09. This complements the government's Homestart NT scheme announced in Budget 2009.
 - Darwin house prices increased by 2.2% in the March quarter 2009 and by 10.8% on an annual basis. Darwin had the highest annual growth among all eight capital cities in Australia.
- Leading indicators signify a softening of the NT labour market:
 - Newspaper job ads remain volatile. They increased by 19.2% (seasonally adjusted) in March 2009 compared to a decline of 33.8% in February 2009. However, they fell 16% over the year (ANZ January 2009 Job Ad Survey). At the national level newspaper job advertisements decreased by 53.4%. Access Economics forecast unemployment to rise in 2009-10. The NT Treasury forecasts unemployment to increase to 5% in 2009-10 and remain at that level for a few years.
- Shortage of credit and tightening credit conditions, and slowing demand for credit are still the key impediments to economic expansion and growth.
- Lower commodity prices and reduced demand (both global and domestic) are reducing returns to resource sector projects and activities but with some commodities like live cattle, export trade, gold and LNG, exports are expected to do well.
- Mineral exploration expenditure in the NT increased by 8% in the December quarter 2008 compared to the September quarter. Mineral exploration expenditure in other jurisdictions declined in the December quarter (except Tasmania – marginal increase). However, the NT had the largest fall of all jurisdictions in petroleum exploration expenditure of \$40.2 million (58%) in the December quarter 2008.

- The sale of new vehicles has been tracking downwards since March 2008. New motor vehicle sales increased by 13.9% (seasonally adjusted) in April 2009, compared to March 09 but declined by 34% on an annual basis. Nationally car sales increased by 0.9% (seasonally adjusted).
- Economic growth continues to be constrained by the slowdown in the economies of the Northern Territory's trading partners (China, Japan, other Australian states, etc).
- The outlook for the local tourism industry over the next two years remains very challenging, particularly in international markets. The latest NT Tourism Forecasts (due for public release late May) suggest a 3% decline in overall visitor numbers to the NT in 2008-09, followed by a 1% decline in 2009-10 and 1% increase the following year. In terms of visitor expenditure in the Territory, the forecasts suggest \$290 million in lost tourism expenditure over the three years from 2008-09 to 2010-11 (compared to 2007-08 levels). Visitor expenditure is forecast to slip by 3% in 2008-09, 6% in 2009-10 and 1% in 2010-11.

Release dates for key economic data for Australia and the Northern Territory

- Access Economics Business Outlook June quarter 2009 – Mid July 2009
- ABS Australian National Accounts March quarter 2009 – 3 June 2009
- ABS State Accounts 2008-09 – 14 November 2009
- ABS Construction Work Done (Preliminary) March quarter 2009 – 27 May 2009
- ABS Dwelling Commencements, March quarter 2009 – 17 June 2009
- ABS Labour force, Australia (monthly) May 2009 – 11 June 2009
- ABS Retail Trade Trends, Australia (monthly) April 2009 – 1 June 2009

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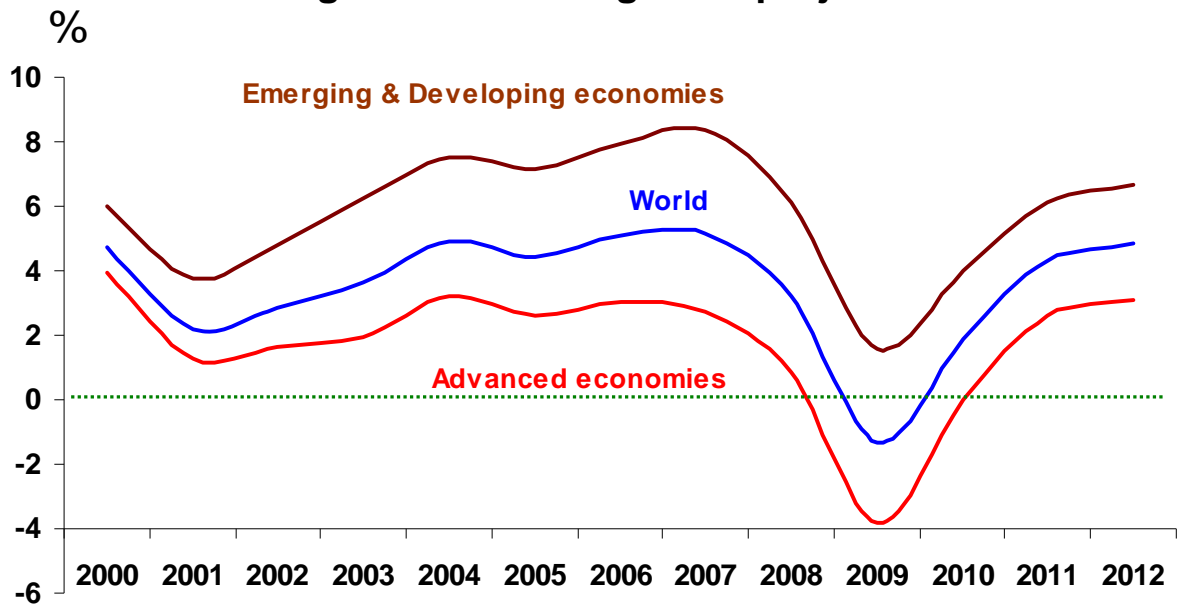
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Appendix A

IMF global real GDP growth projections



Source: IMF April 09

Economic Outlook: Australia

