

1.1 OVERVIEW

The ACT economy is performing well compared to other non-mining states. Economic growth as measured by Gross State Product (GSP) exceeded expectations and is now expected to be close to trend this financial year, an upward revision compared to the 2012-13 Budget Review forecasts. Population growth in the Territory has remained relatively high in recent years, exceeding the national average, and inflationary pressures are well contained.

The economic outlook for the ACT in 2013-14, however, remains challenging mainly due to Commonwealth Government fiscal consolidation, which is expected to continue. A number of downside economic risks continue to cloud the short term economic outlook, but the Territory is nevertheless in a good position to deal with the economic challenges that lie ahead given its strong economic fundamentals. The Territory should also benefit from the easier stance of monetary policy, which should support the interest rate sensitive parts of the economy.

Australia's economy is in good shape, with growth being around trend in 2012. Relatively strong economic conditions in Australia's major trading partners and still-strong investment in the pipeline in the resource sector are expected to support growth. There are early signs of economic rebalancing across industries, with growth gradually shifting from mining investment towards exports, non-mining business investment and household spending. However, the Commonwealth Treasury, in its 2013-14 Federal Budget warns of structural challenges including the high Australian dollar, global uncertainty and household caution that may prevent a seamless transition to non-resource drivers of growth.

Global economic growth outcomes continued to be mixed. The International Monetary Fund (IMF) expects growth to be slightly below trend in 2013, before strengthening a little in 2014. Economic conditions in the United States continued to improve in recent months, with further declines in the unemployment rate and recovering housing market activity. The euro area remains in recession and fragile, with high unemployment rates across the region. Growth in the Chinese economy has slowed, but is proceeding at a more sustainable pace. Global economic risks are on the downside; the banking and fiscal problems in the euro area in particular could escalate and spread further within the region.

