

1.3 ACT ECONOMIC OUTLOOK

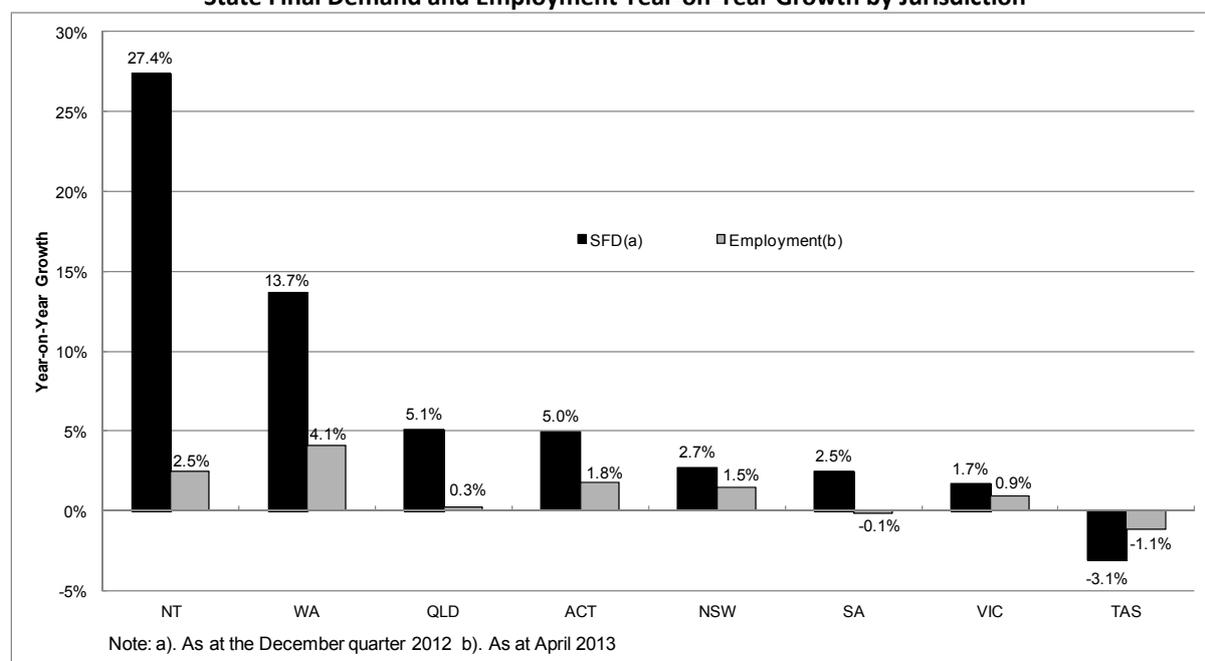
Recent Economic Developments and Outlook for 2012-13

The ACT economy continues to perform well compared to other non-mining states as demonstrated in Figure 1.3.1. The global economic and financial outlook has improved and therefore poses less risk to the forecasts compared to the 2012-13 Budget Review. Final demand and employment outcomes in the first half of 2012-13 were stronger than expected.

State Final Demand (SFD) growth in 2012-13 was revised upwards from 1¼ per cent to 2¾ per cent, reflecting stronger-than-expected public sector activity. The employment growth forecast for 2012-13 was revised upwards from 1 per cent to 1½ per cent, in line with stronger-than-expected Labour Force Survey results driven by strong public sector job gains.¹ The forecast for Gross State Product (GSP) growth in 2012-13 was revised upwards from 2¼ per cent to 2¾ per cent to reflect the stronger final demand and employment results.

Figure 1.3.1

State Final Demand and Employment Year-on-Year Growth by Jurisdiction



Source: ABS Cat No. 5206.0, 6202.0 and Chief Minister and Treasury Directorate calculations.

The ACT's economic fundamentals remain solid. Population growth continues to be strong and together with low interest rates should continue to underpin household consumption growth and underlying demand for residential property. The unemployment rate, while having trended upwards in recent months, remains the second lowest in the country, while the participation rate is the second highest in the country.

¹ To date, significant public sector job losses expected in the 2012-13 Commonwealth Budget are not evident in Australian Bureau of Statistics data. Public sector employment increased by 4.1 per cent in year-average terms to the February quarter 2013.

However, against the background of ongoing uncertainty around the global economic and financial outlook and Commonwealth Government fiscal consolidation, the short term ACT economic outlook remains subject to downside risks.

Economic Outlook for 2013-14

The prospects for the ACT economy in 2013-14 are sensitive to Commonwealth Government fiscal consolidation and future Commonwealth Government policy decisions.

This is reflected in the modest economic outlook for the ACT economy in the short term. The key economic aggregates for the ACT are summarised in Table 1.3.1.

Table 1.3.1
Economic Forecasts, Year-Average Percentage Change

	Actual	Forecasts ¹	
	2011-12	2012-13	2013-14 ²
ACT			
Gross State Product	3.5	2¾	1¾
Employment	0.5	1½	¼
State Final Demand	4.2	2¾	¼
Consumer Price Index	2.5	2	2¼
Wage Price Index ³	3.3	4	3
Population ⁴	1.8	1½	1½
Australia			
Gross Domestic Product ⁵	3.4	3	2¾

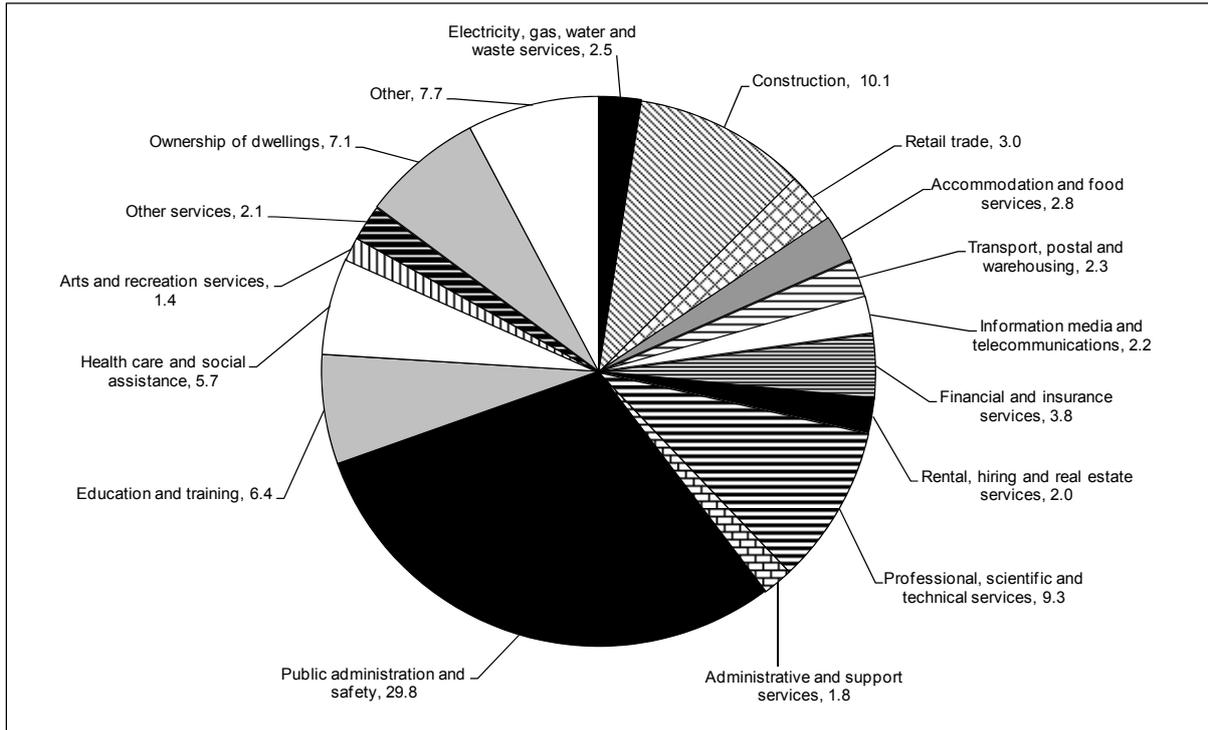
Notes:

1. Forecasts are rounded to a ¼ of a percentage point to reflect the relative level of accuracy used in forecasting economic parameters.
2. The forecasts incorporate the estimated impact of the Commonwealth carbon price scheme, which commenced in 2012-13.
3. Total hourly rates of pay excluding bonuses.
4. The population forecasts and projections reflect Chief Minister and Treasury Directorate estimates. The forecasts are based on the rate of growth from the June quarter compared to the June quarter of the previous year, rather than 'year average' as with all other forecasts.
5. 2013-14 Commonwealth Budget forecasts for 2012-13 and 2013-14.

The Territory's economic growth in 2013-14 is expected to be significantly constrained by Commonwealth Government spending restraint and uncertainty weighing on household consumption expenditure growth. In addition investment growth is expected to proceed at a below-trend pace.

Gross State Product (GSP) growth, the Australian Bureau of Statistics' (ABS) headline measure of the ACT economy, is forecast to moderate to 1¾ per cent in 2013-14, reflecting among other things, the impact of Commonwealth fiscal consolidation as the Public Administration and Safety sector accounts for around one third of GSP (Figure 1.3.2). Moderating investment and household consumption growth are also expected to weigh on GSP growth.

Figure 1.3.2
Share of ACT Gross State Product 2011-12 Current Price Industry Value Added



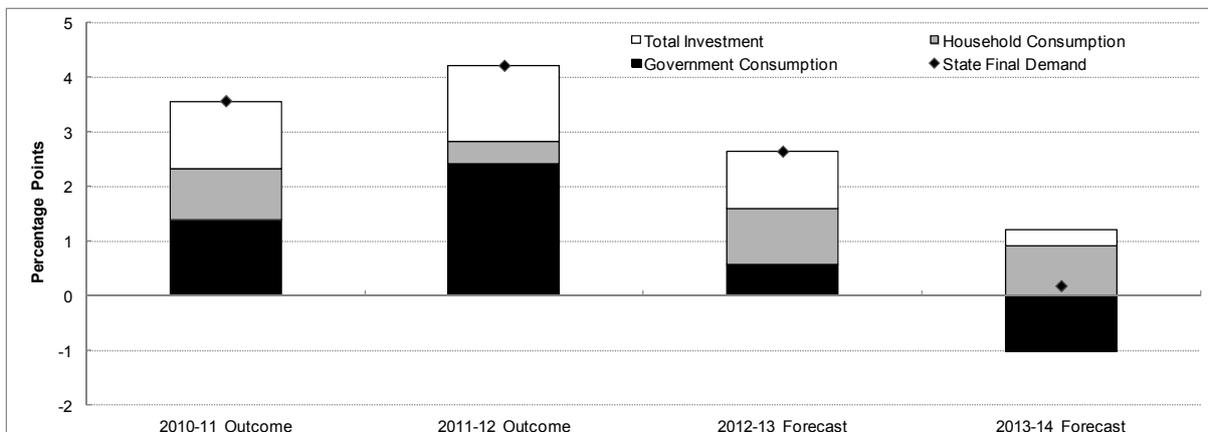
Source: ABS Cat No. 5220.0 and Chief Minister and Treasury Directorate calculations.

Note:

'Other' includes Agriculture, Forestry and Fishing, Mining, Manufacturing, Wholesale trade and Taxes less subsidies on products.

State Final Demand (SFD) growth is forecast to moderate to ¼ per cent in 2013-14. The forecast growth reflects contributions from household consumption and total investment, partly offset by a negative contribution from public consumption. The decrease in Commonwealth Government expenditure, combined with moderating household consumption growth and below trend investment growth is expected to lead to the lowest SFD growth in more than two decades. Contributions to SFD growth from the various components are shown in Figure 1.3.3.

Figure 1.3.3
Contributions to Growth in ACT State Final Demand



Source: ABS Cat No. 5206.0 and Chief Minister and Treasury Directorate calculations.

Public Final Demand

Comprised of the Federal Parliament, Commonwealth Government agencies and national institutions, and the ACT Government and its public corporations, public final demand is important to the future prospects of the Canberra community and business.

The ACT's position as the seat of the Commonwealth Government means that the economy is sensitive to the decisions and actions of the Commonwealth Government. Over the past few years, fiscal tightening by the Commonwealth Government has been a consistent theme, implying a contraction in spending and job losses for the ACT community. Expenditure restraint is expected to continue given fiscal pressures faced by the Commonwealth Government.

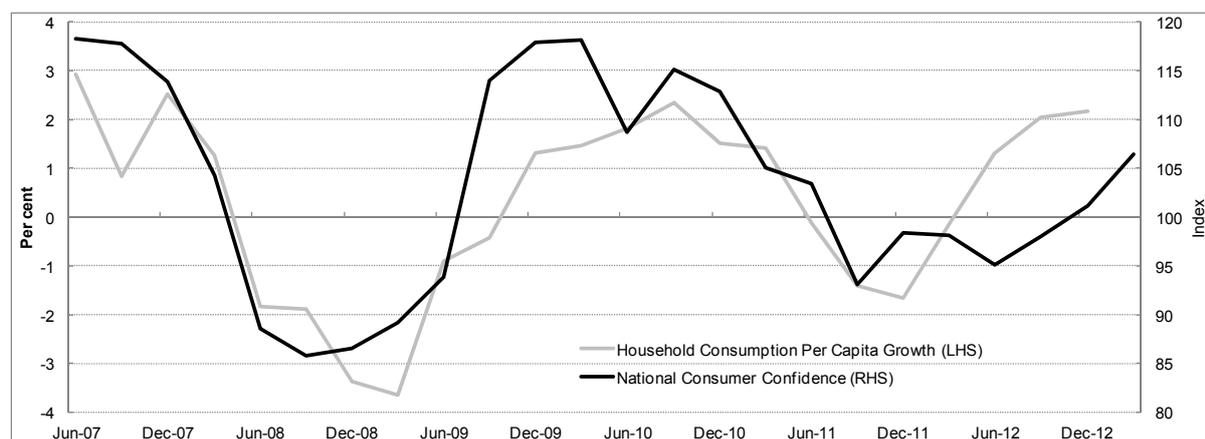
The ACT Government remains committed to the delivery of its capital works program to support economic growth and jobs. This includes significant upgrades to transport infrastructure, education, health and community-based facilities across the Territory as well as continuing the land release program.

Household Consumption

Household consumption has recovered from the weak growth seen in recent years, with year-to-date consumption being above its long term trend. Sales of motor vehicles in the Territory have continued to grow strongly assisted by the high Australian dollar and sales incentives by car manufacturers. Stronger-than-expected wages and employment growth, solid population growth, together with low interest rates have also supported spending.

Nevertheless, the softening labour market, weaker consumer confidence as well as the uncertainty around Commonwealth Government fiscal consolidation is expected to put downward pressure on household consumption in 2013-14 (Figure 1.3.4).

Figure 1.3.4
Consumer Confidence and ACT Household Consumption Per Capita

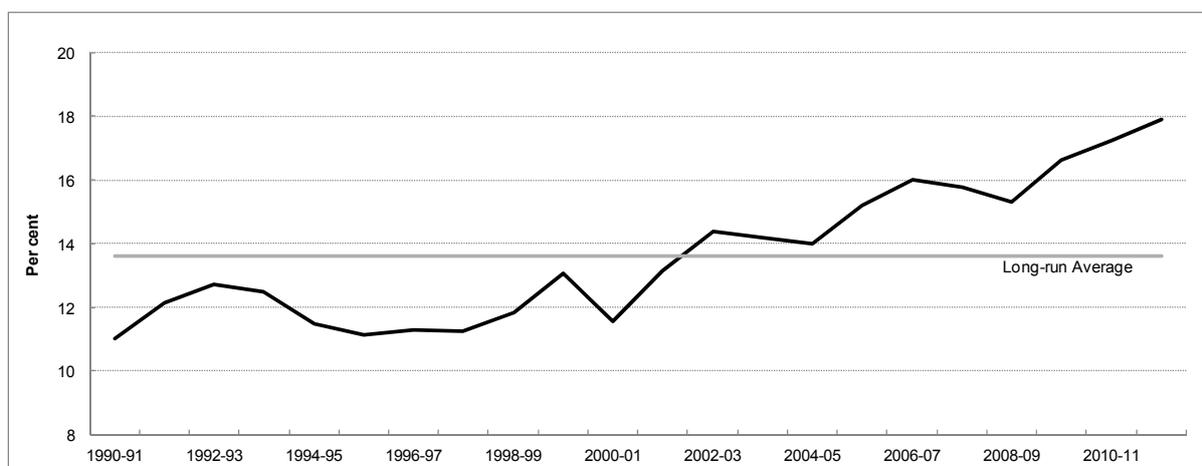


Source: ABS Cat No. 5206.0, 3101.0, Westpac-Melbourne Institute Survey of Consumer Sentiment and Chief Minister and Treasury Directorate calculations.

Investment

Total investment in recent years has been one of the key economic drivers in the ACT, with investment as a ratio of SFD at record levels (Figure 1.3.5). The landscape of the ACT has changed significantly over the past decade. The ACT has experienced significant investment from the private and public sector in the residential property market, new office buildings, town centres, retail stores as well as roads and bridges, health care centres and schools to service a fast-growing Canberra. However, with key projects having reached, or reaching completion and a smaller set of new projects to replace them, investment growth is expected to moderate in 2012-13 and 2013-14. The level of investment as a ratio of SFD is nevertheless expected to remain at around record levels.

Figure 1.3.5
ACT Investment as a Share of State Final Demand
Per cent Annual Data



Source: ABS Cat No. 5206.0 and Chief Minister and Treasury Directorate calculations.

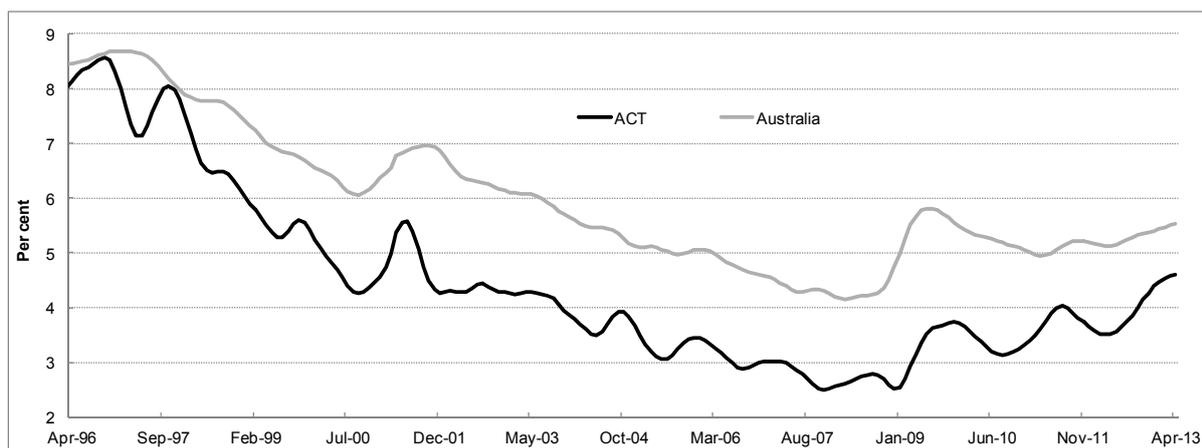
Leading indicators point to a deceleration in **dwelling investment** growth in 2012-13 and 2013-14. However, strong population growth and a low interest rate environment should support demand in the housing construction sector over the forecast period. The Federal Election appears to be causing some uncertainty and therefore caution amongst prospective home buyers, particularly property investors.

The value of non-dwelling construction in the pipeline is trending downwards, pointing to a softening in **non-dwelling investment** as the value of projects commencing is struggling to replace the value of projects being completed. **Engineering** construction activity is performing strongly with high levels of investment still in the pipeline for water and transport infrastructure, such as the \$288 million Majura Parkway link and pipeline values increasing for telecommunications due to the construction of the National Broadband Network (NBN) in the ACT.

Labour Market

Labour market outcomes in the ACT have been soft in the past few months. In trend terms, monthly employment growth since the beginning of the 2012-13 financial year has been well below that recorded in the second half of 2011-12. The unemployment rate trended gradually higher over the past year and the participation rate has also trended lower recently, reflecting softer labour market conditions (Figure 1.3.6).

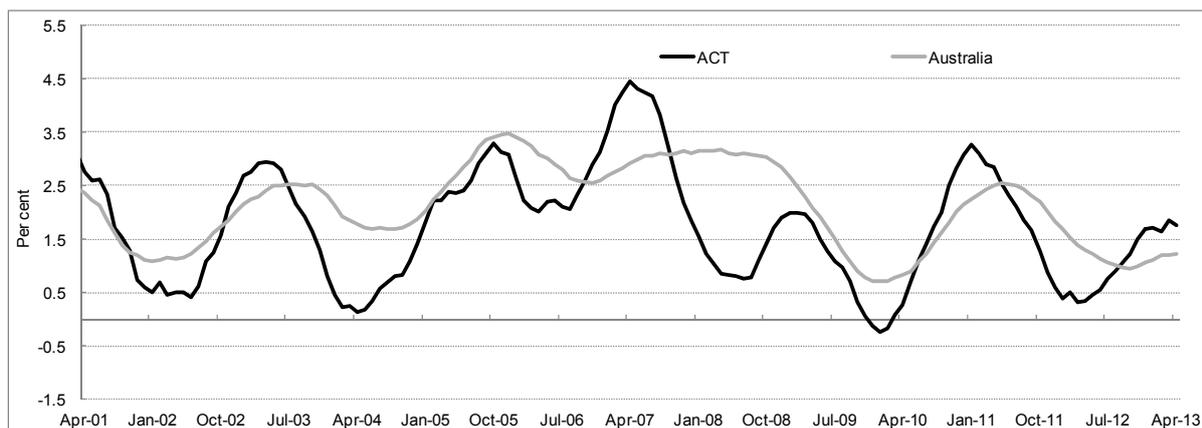
Figure 1.3.6
Unemployment Rate, ACT and Australia
Monthly Trend Data



Source: ABS Cat No. 6220.0.

Despite the softening labour market, year-on-year employment growth to April 2013 was 1.8 per cent in the ACT compared to 1.2 per cent nationally (Figure 1.3.7).

Figure 1.3.7
Employment Growth, ACT and Australia
Monthly Original Data



Source: ABS Cat No. 6220.0.

Leading indicators of labour demand continue to point to soft conditions in coming months. The ABS measure of job vacancies has halved in the three months to February 2013, compared to the same period last year.

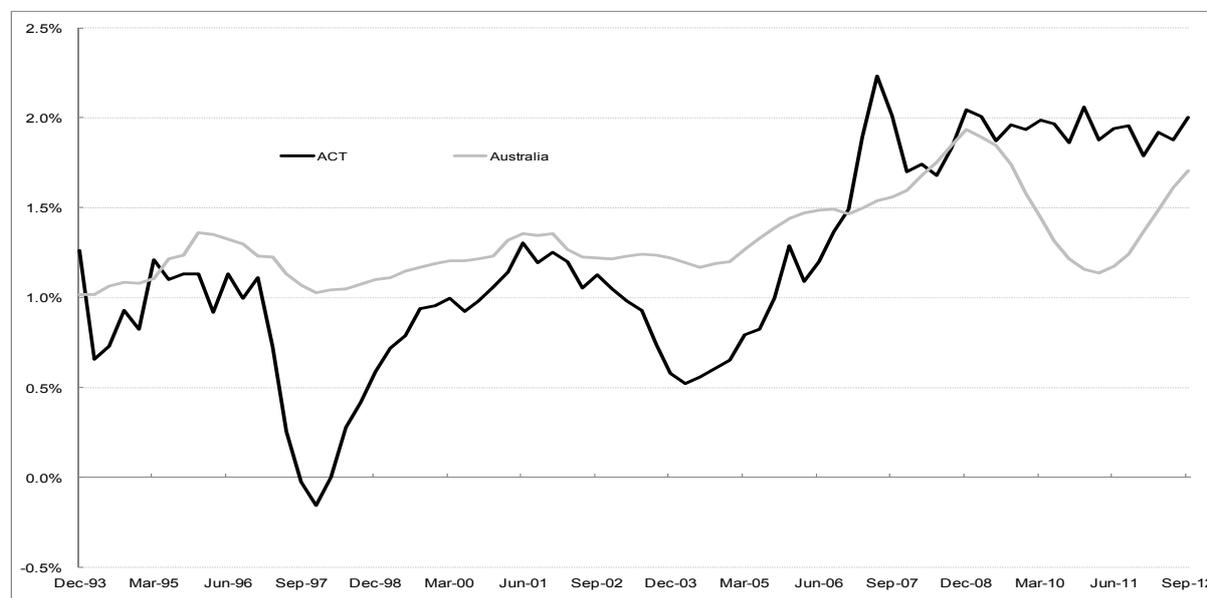
Labour market activity is forecast to ease further in 2013-14 consistent with moderating economic growth. Employment growth is expected to moderate to ¼ per cent in 2013-14.

Risks to the labour market outlook continue to be on the downside due to Commonwealth Government fiscal consolidation and uncertainty about future Commonwealth Government policy settings that might impact on business hiring intentions and recruitment plans.

Population

Population growth has been remarkably strong since the Global Financial Crisis (Figure 1.3.8), mainly attributed to natural increase and overseas migration. Strong population growth, above the national average, has helped to support consumer spending, the demand for housing as well as labour supply. The ACT population is projected to grow by 1½ per cent in both 2012-13 and 2013-14, taking into account Estimated Resident Population data as released by the ABS, as well as the estimates of fertility, mortality and migration. These assumptions indicate the ACT's population growth will be predominantly influenced by natural increase and net overseas migration, with net interstate migration projected to have little effect on overall population growth.

Figure 1.3.8
ACT Population, Through-the-Year Growth

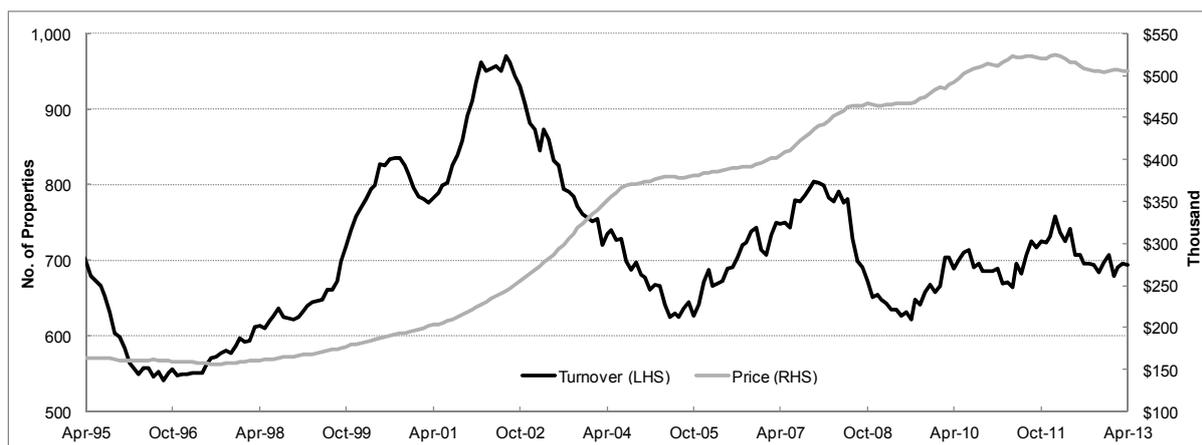


Source: ABS Cat No. 3101.0 and Chief Minister and Treasury Directorate calculations.

Housing Market

The Canberra housing market has softened during 2012-13, with prices remaining flat and a fall in turnover levels recorded compared to recent highs as shown in Figure 1.3.9. The recent performance in price partly reflects compositional change in the property market in the ACT, with unit sales now accounting for more than half of the total property turnover. This is partly due to the ACT Government residential land release program.

Figure 1.3.9
ACT Residential Property Turnover and Average Price, 12-Month Moving Average, Monthly Original Data

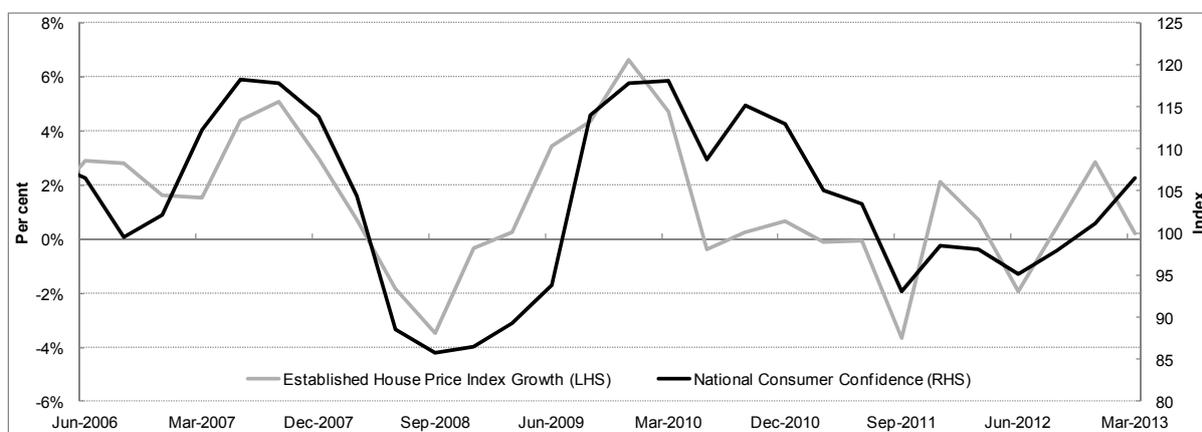


Source: ACT Planning and Land and Chief Minister and Treasury Directorate calculations. Solid population growth and historically low interest rates are expected to support housing demand. The ACT Government housing affordability initiatives, policies including the ACT Government's land release program and the reduction in residential conveyance duty rates being implemented as part of the long term ACT taxation reforms are also expected to support local housing market activity. However, risks to the outlook remain on the downside.

The underlying trend in residential building approvals indicates that the residential construction cycle has weakened over the past year, following strong building activity in previous years.

The major challenge facing the ACT property market will continue to be ongoing fiscal constraint by the Commonwealth Government and uncertainty around future Commonwealth Government policy settings, which might have a dampening impact on market sentiment, particularly among property investors and developers (Figure 1.3.10).

Figure 1.3.10
Consumer Confidence and Established House Prices



Source: ABS Cat No.6416.0, Westpac-Melbourne Institute Survey of Consumer Sentiment and Chief Minister and Treasury Directorate calculations.

The weekly rent for a three-bedroom house in Canberra in the year to the December quarter 2012 declined slightly and the rental vacancy rate in the ACT increased marginally during 2012-13. The easier monetary policy stance of the RBA and the increasing supply of rental properties are expected to alleviate some upward pressure on rents in the short to medium term. Nevertheless, the ACT rental market continues to provide an attractive investment option, with relatively high rental yields, strong long term growth in house prices, solid population growth and a relatively stable and high income labour market.

Consumer Price Inflation and Wages

Consumer Prices

Quarterly Consumer Price Index (CPI) growth in Canberra has moderated substantially from 1.1 per cent in the September quarter 2012, which included the impact of the introduction of carbon pricing, to 0.1 per cent in the March quarter 2013.

Year-on-year to the March quarter 2013, CPI growth for Canberra was lower than the national average. The lower CPI outcome in Canberra reflected a larger Australian dollar impact on Canberra's 'tradeable CPI' than nationally and continuing discounting in the retail sector that has led to never-before seen deflation in Canberra's 'Goods' CPI.

The RBA expects that national inflation over the next one to two years will be consistent with the 2-3 per cent target. Consumer price inflation in Canberra should also remain well contained over the medium term given the outlook for economic growth.

Annual core inflation in Canberra, as measured by the 'all groups measure excluding food and energy' and 'all groups measure excluding volatile items', stabilised in the March quarter 2013, following four consecutive quarters of deterioration. This indicates that following the muted underlying inflation pressures in the local economy in 2012-13, inflation may rebound slightly in 2013-14.

Wages

Overall wage growth outcomes in 2012-13 in the Territory were strong as a result of an adjustment following delays in the implementation of Enterprise Bargaining Agreements (EBAs) in the Commonwealth public sector. The late finalisation of the EBAs had an upward impact on public sector wages growth and hence on overall wages growth in the Territory in 2012-13.

Wages growth, as measured by the Wage Price Index (WPI), is expected to be well below trend in 2013-14. Factors contributing to this outcome include the impact on final demand from ongoing fiscal consolidation by the Commonwealth Government, continued subdued demand for labour in the private sector, the relatively low agreed wage increases for Commonwealth Government departments for 2013-14 and the stated intention of the ACT Government for a low EBA wage growth outcome for ACT public servants. In addition, forward-looking indicators of labour demand, including hiring expectations and job vacancies have continued to weaken. Business surveys at the national level also suggest that private sector wage pressures will continue to ease, while public sector wages are likely to remain below trend in the context of Commonwealth and State government fiscal consolidation.

Forward Year Projections

Forward year projections are reflected in Table 1.3.2 below. Projections are based on long-run averages and are provided for planning purposes only and do not reflect an expectation (forecast) of actual outcomes.

Table 1.3.2
Economic Projections, Year-Average Percentage Change

	Projections ¹		
	2014-15	2015-16	2016-17
ACT			
Gross State Product	3	3	3
Employment	1¾	1¾	1¾
State Final Demand	4¾	4¾	4¾
Consumer Price Index	2½	2½	2½
Wage Price Index ²	3¾	3¾	3¾
Population ³	1½	1½	1½
Australia			
Gross Domestic Product ⁴	3	3	3

Notes:

1. Projections are rounded to a ¼ of a percentage point to reflect the relative level of accuracy used in estimating economic parameters.
2. Total hourly rates of pay excluding bonuses.
3. The population projections reflect Chief Minister and Treasury Directorate estimates. The estimates are based on the rate of growth from the June quarter compared to the June quarter of the previous year, rather than 'year average' as with all other projections.
4. 2014-15 is a forecast year in the 2013-14 Commonwealth Budget.