

The Near-Term Economic Outlook

Peter M. Summers



Overview: United States

■ Recovery under way

- ◆ GDP growth back above 4% by year end
- ◆ Unemployment falling: 5% in December qtr, 4.5% by December 2003
- ◆ Inflation increasing
- ◆ 50 basis point increase in Fed Funds rate by December



Overview: Australia

- “Cruising speed,” not “full throttle”
 - ◆ GDP above 4% till December, 3.6% for 2003
 - ◆ Inflation dropping back to middle of target band
 - ◆ Employment growth accelerating
 - ◆ Slow fall in unemployment rate (rising participation rate)
 - ◆ No need to raise cash rate (yet)



Melbourne Institute Forecasts

	2001		2002		2003
	Dec.	June	Dec.	June	Dec.
<u>GDP</u> (year-ended)	4.1	4.5	3.8	3.6	3.6
<u>US GDP</u> (year-ended)	0.4	1.9	4.2	4.4	4.2
<u>Inflation</u> (weighted median, year-ended)	3.2	2.6	2.6	2.6	2.6
<u>Employment growth</u> (year-ended)	0.9	1.8	2.4	2.0	2.1
<u>Unemployment Rate</u> (avg. for quarter)	6.8	6.7	6.6	6.5	6.4



US GDP



US Inflation



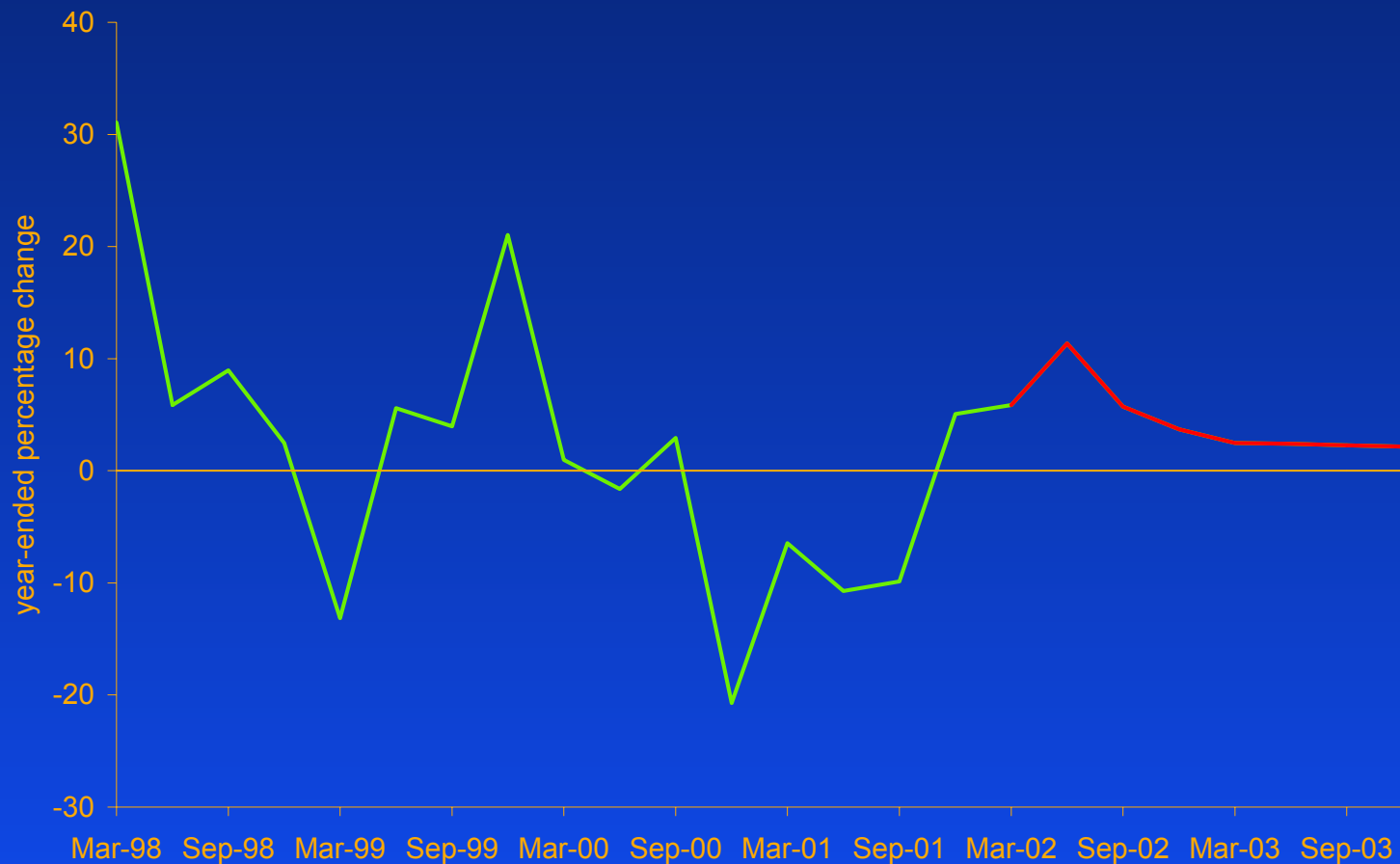
Australian GDP



Consumption



(New) Business Investment



Employment



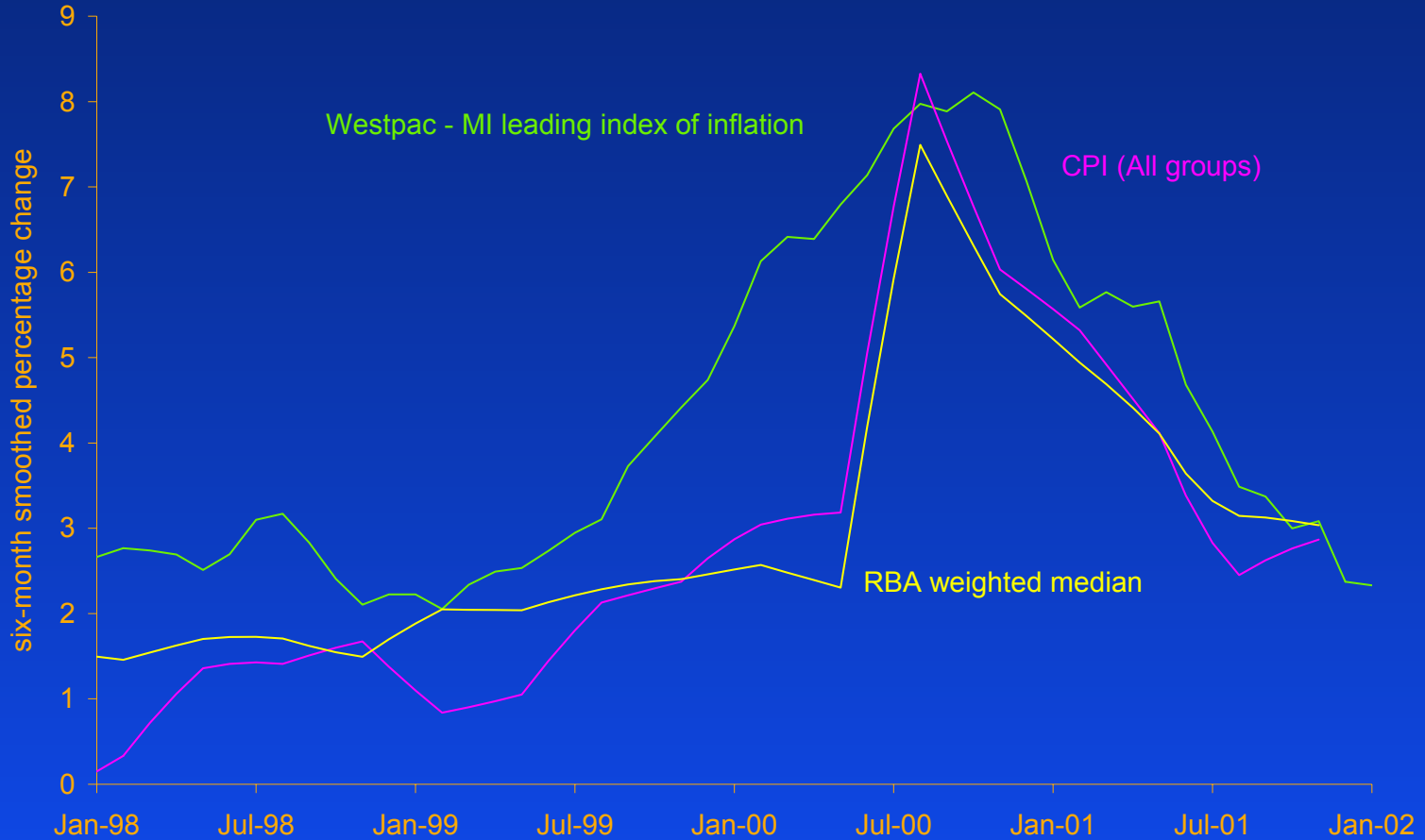
Unemployment rate



Underlying Inflation



Australian Inflation



The Interest Rate Outlook

- No hurry to raise rates...
 - ◆ No evidence of 'boom' in consumption or investment (ex-housing)
 - ◆ Actual and expected inflation falling, wage growth benign
 - ◆ Real rates to rise anyway
- ...But
 - ◆ Balance of risks
 - ◆ Asymmetric cost of forecast errors



Conclusions

- US outlook definitely improving, but uncertainties remain
- No compelling case for quick or large rise in either US or Australian interest rates
 - ◆ Fed: still cautious
 - ☞ concern about accelerating inflation through 2002 (but from low level)
 - ◆ RBA: marking time
 - ☞ Inflation indicators/expectations falling
 - ☞ (on current data) no evidence of excessive stimulus



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