

**Pursuing Opportunity &
Prosperity:
The Economic Outlook**
13 November 2003

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ACCESS ECONOMICS



Economists hate it when things go right ...

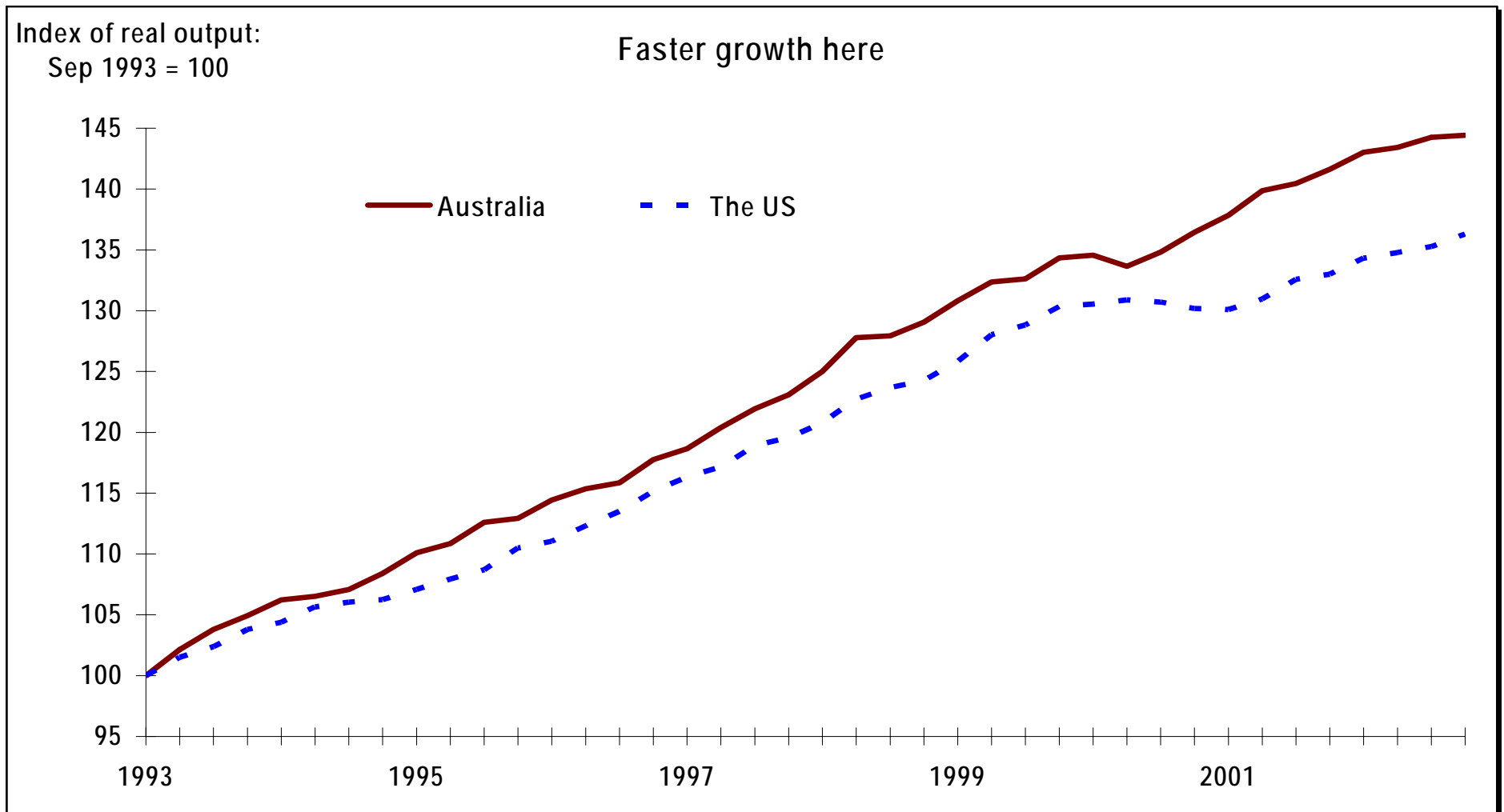
... and things have indeed gone right. In the 1990s Australia grew faster than the US. And since 2000 Australia has easily outpaced the US, with the latter fighting off recession, and only drought standing between us and unbroken rapid growth:

- What went right?
- What could go wrong?
- What is most likely?

What exactly *did* go right?

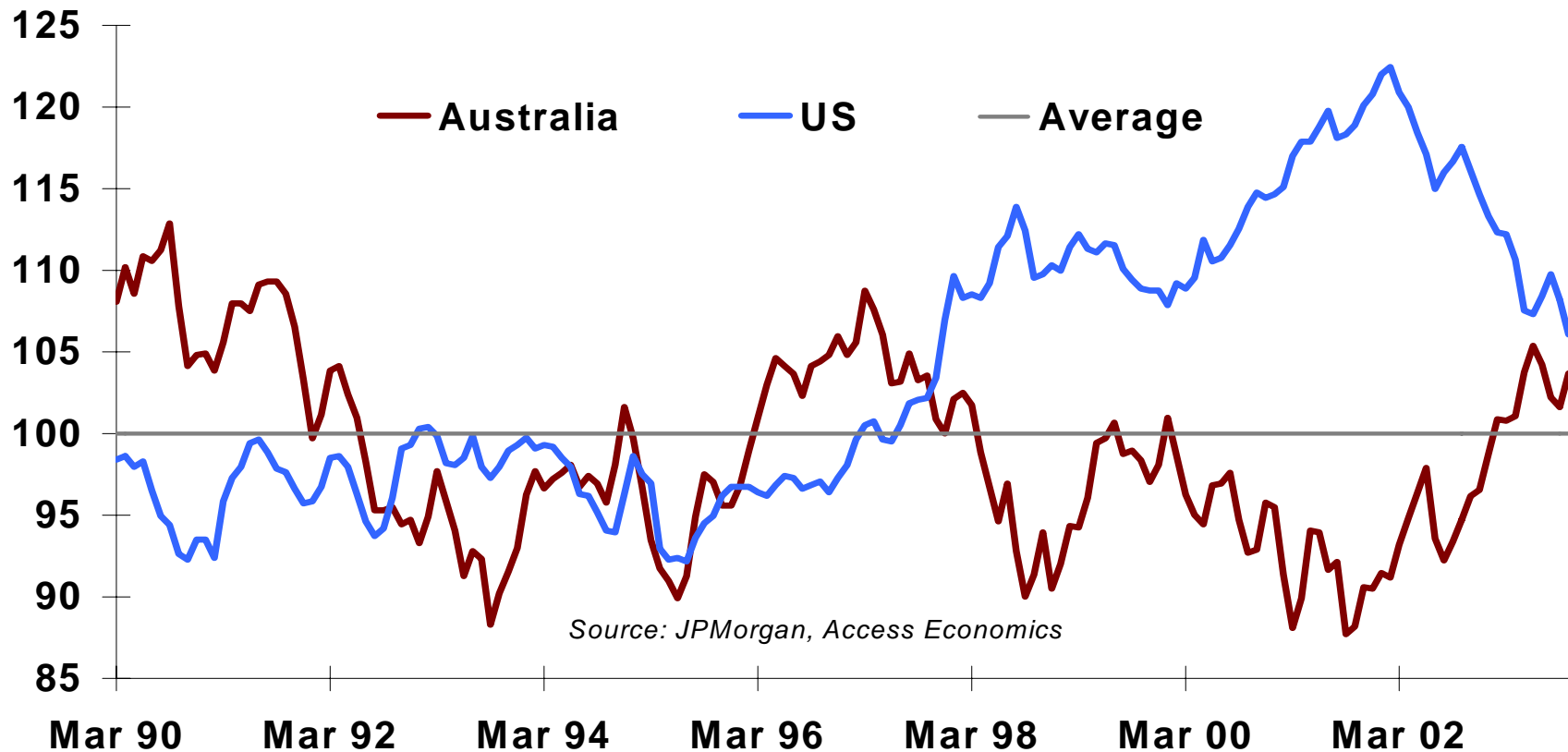
- We got our **productivity** performance right as we'd done some hard yards on micro reform, labour market reform and tax reform since the early 1980s.
- We got our **competitiveness** right as markets dismissed our economy as 'old hat' instead of 'new age' - and priced the \$A accordingly.
- We got our **cycle** right as we began to swing up just as the world began to swing down - thanks to both our interest rates and our construction sector.

Righteousness - the picture (why eco rats think we were right)



The \$A was competitive in world markets after the Asian crisis

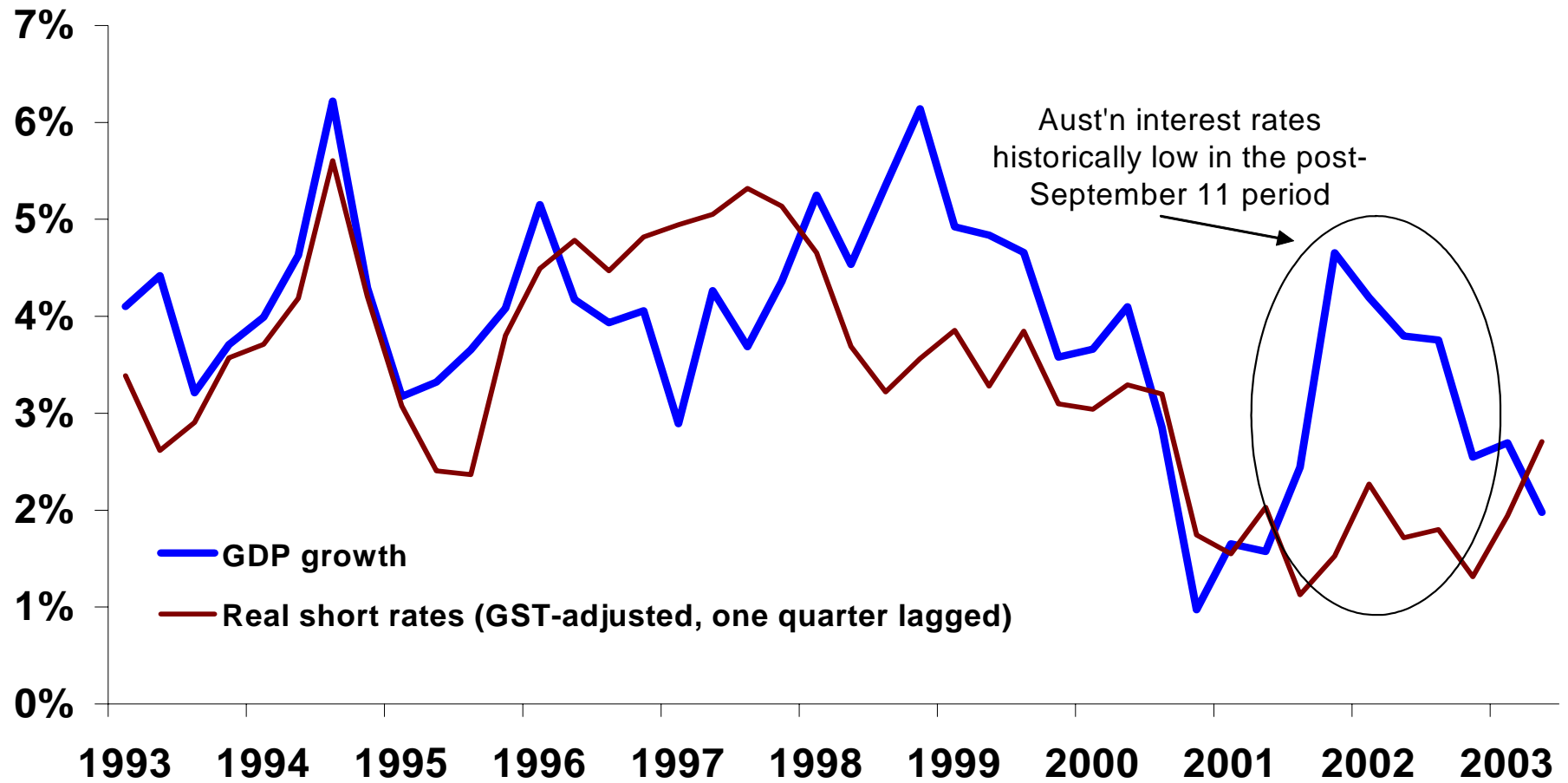
Real effective
exchange rates (index:
1990s average = 100)



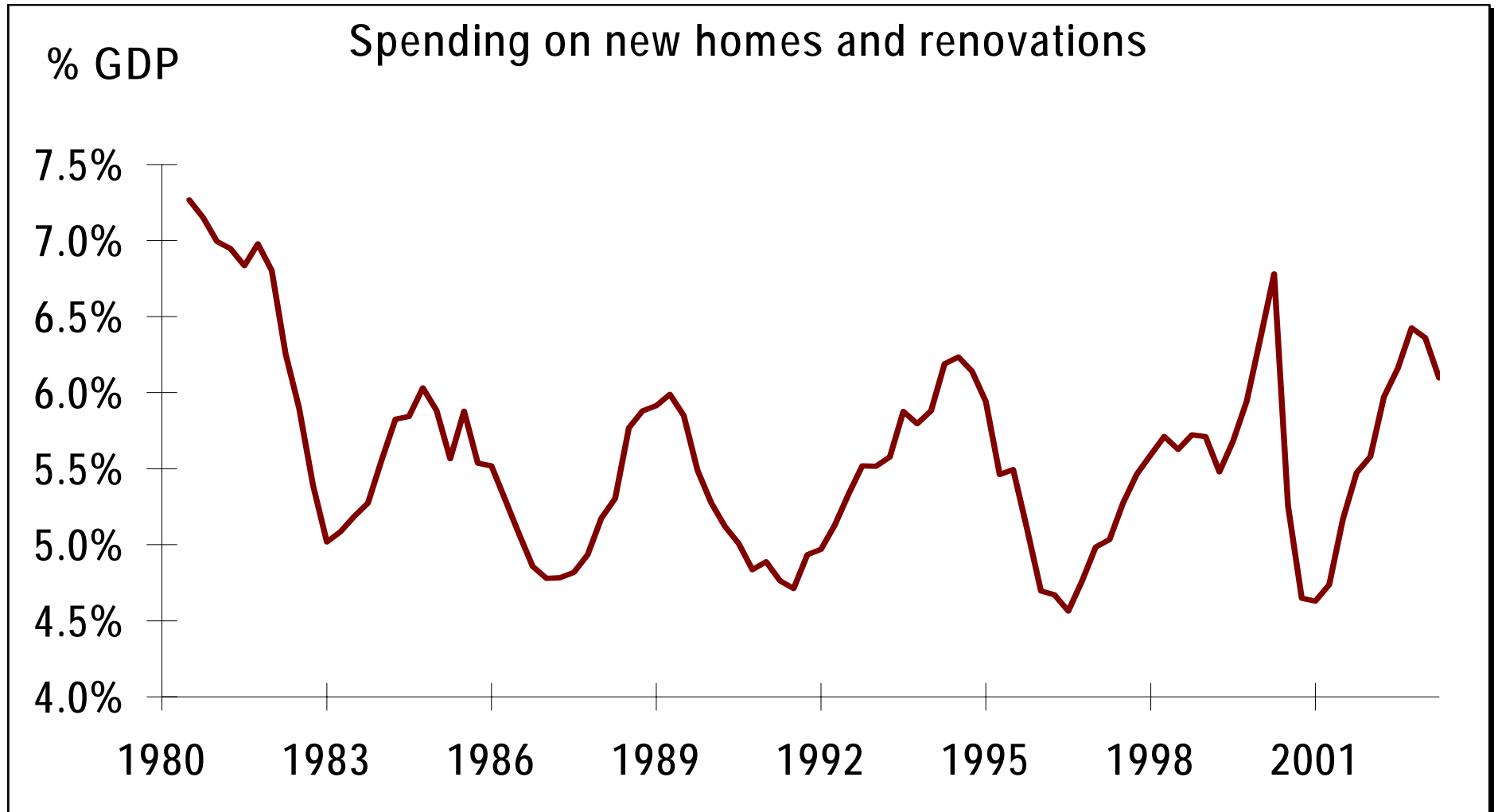
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And the interest rate accelerator was on

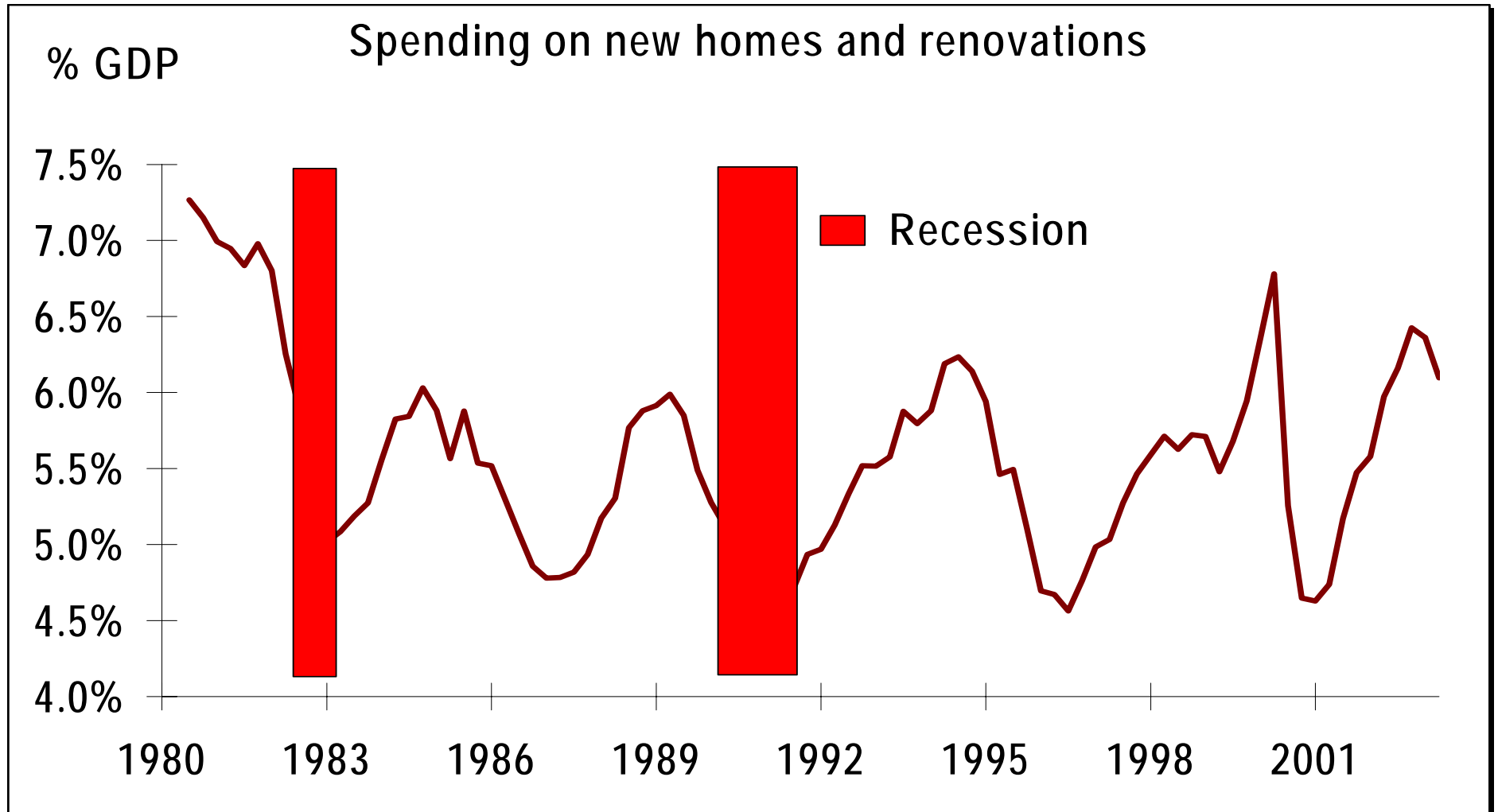
Australian GDP growth vs real short rates



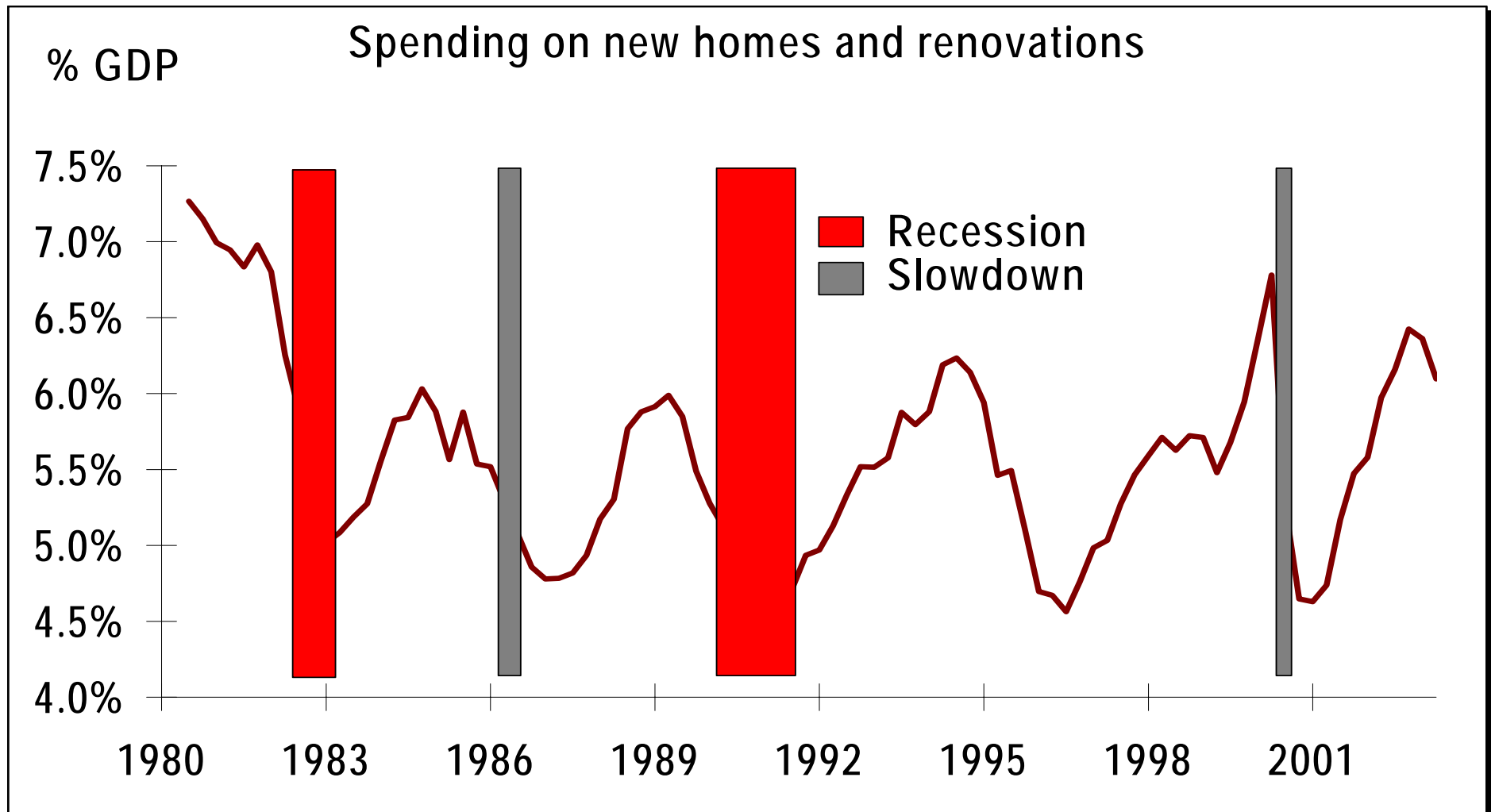
And the housing cycle took off



And the housing cycle took off

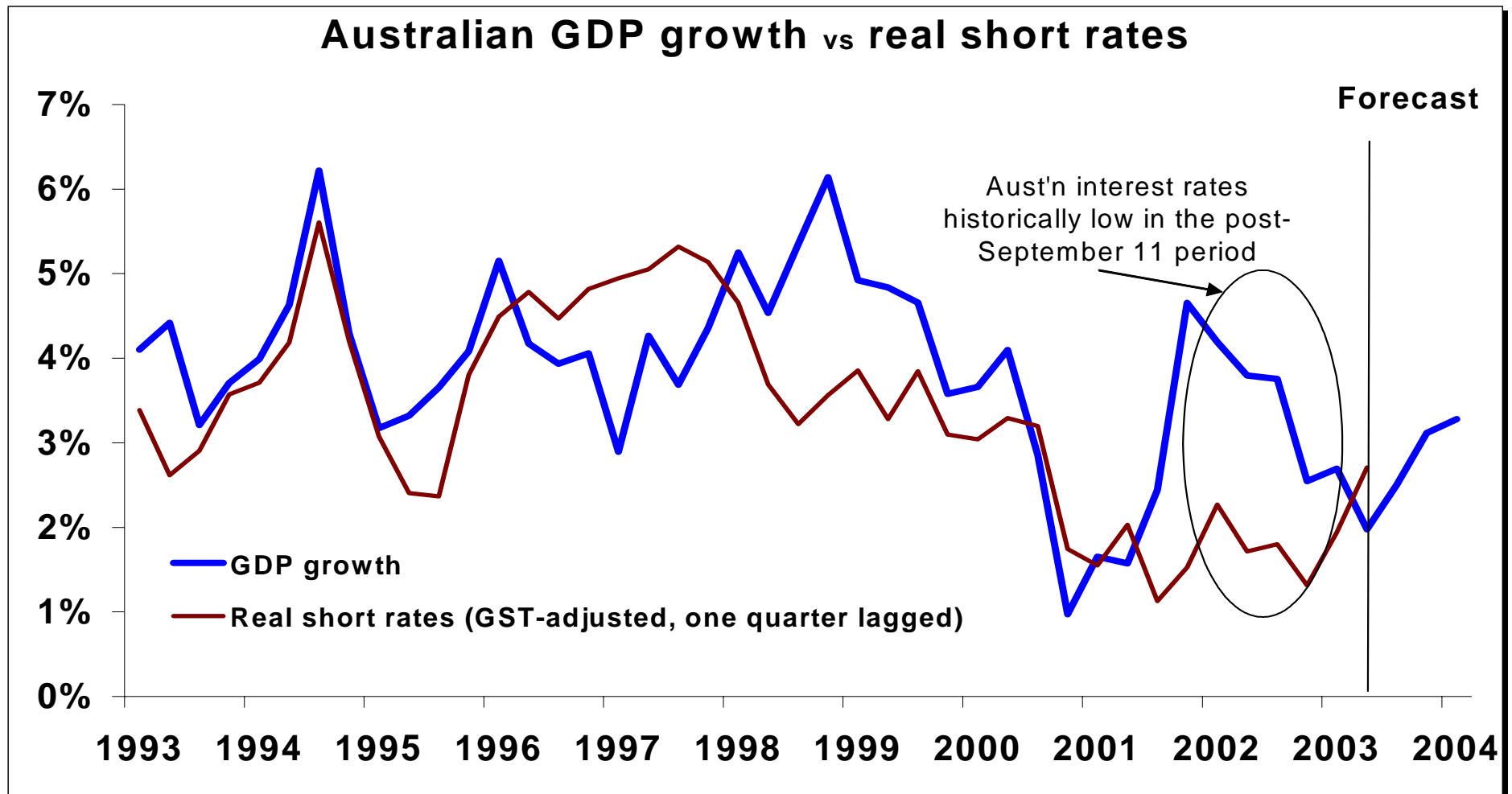


And the housing cycle took off



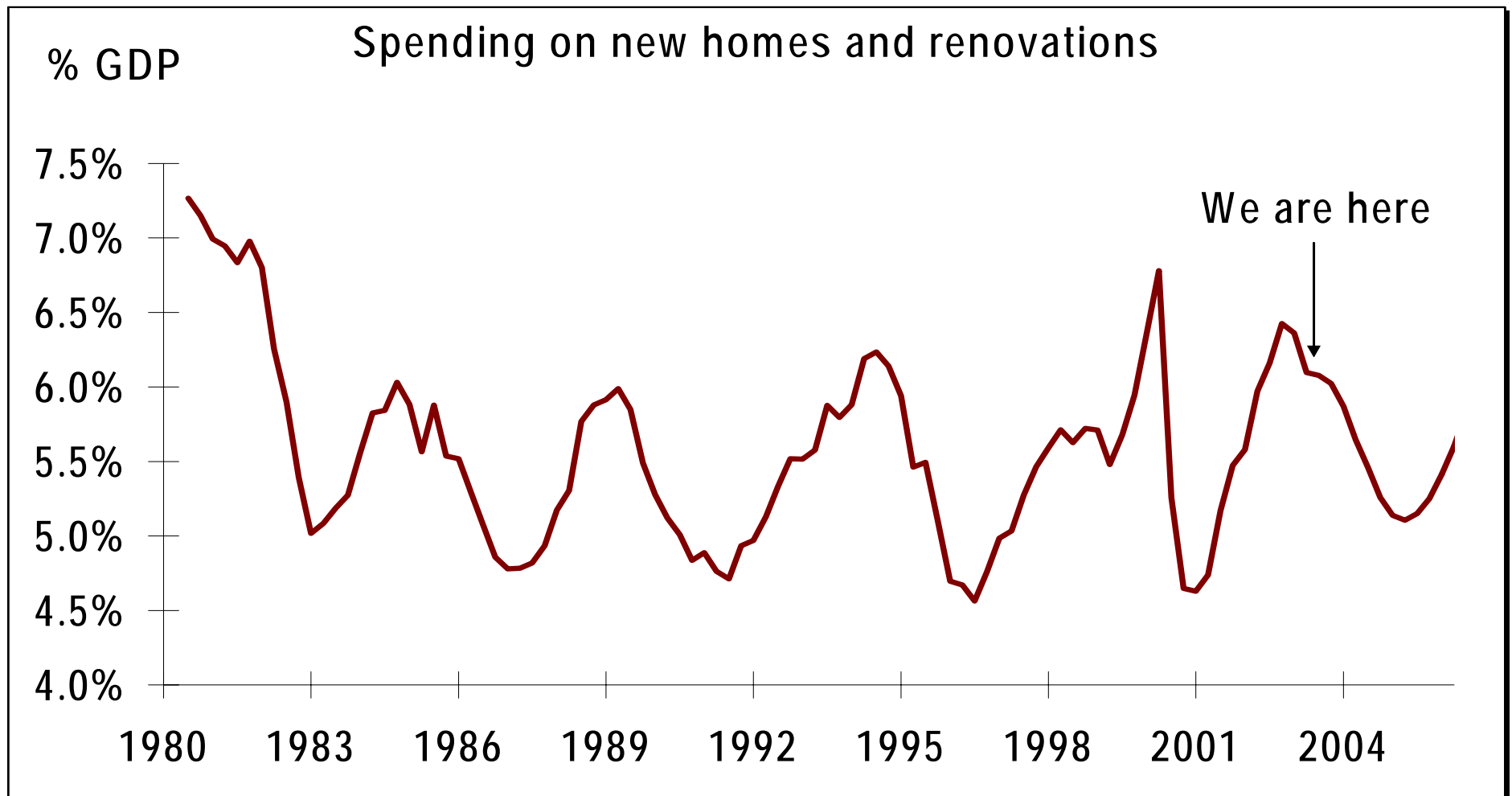
What could go wrong?

(1) Interest rates are headed up

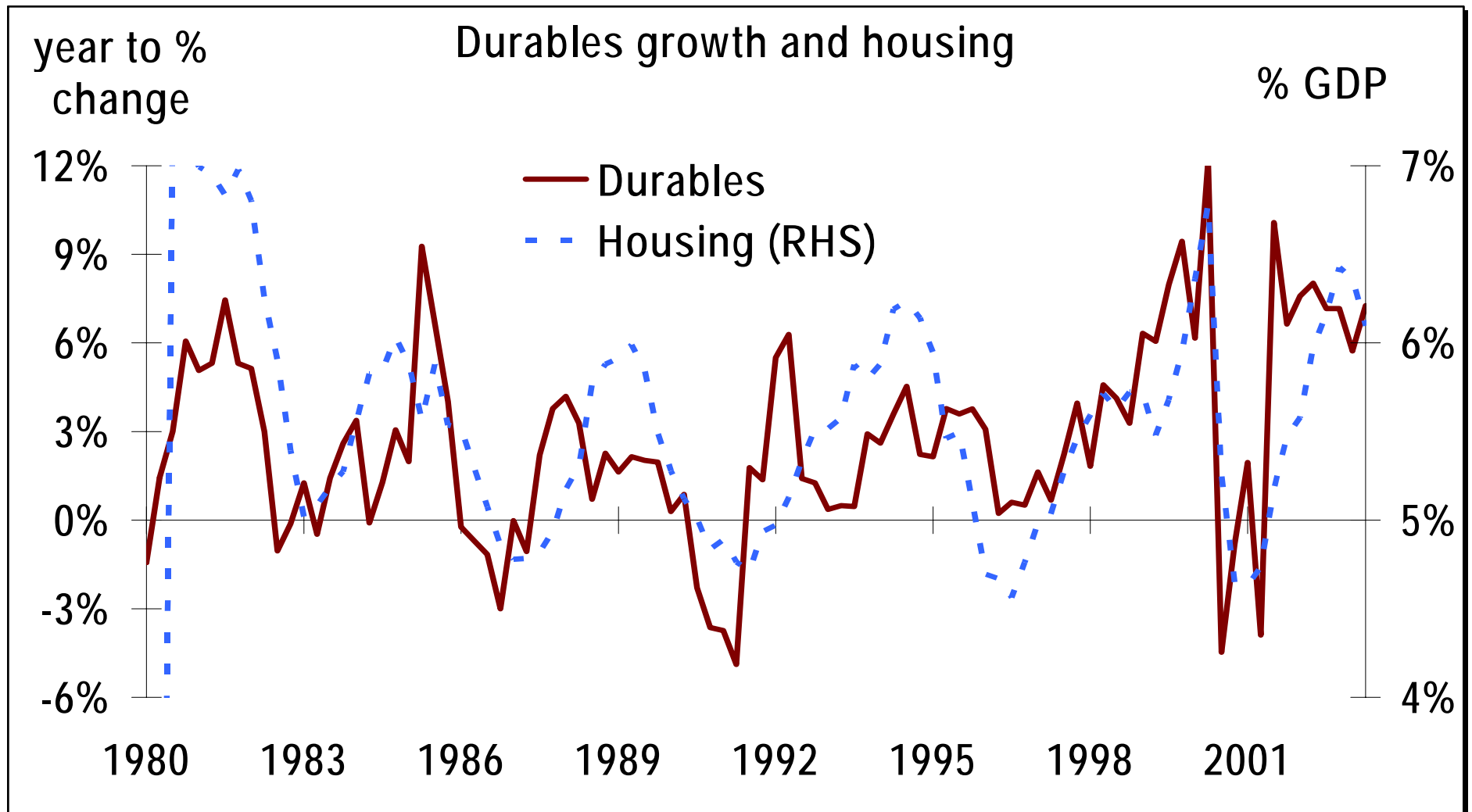


What could go wrong?

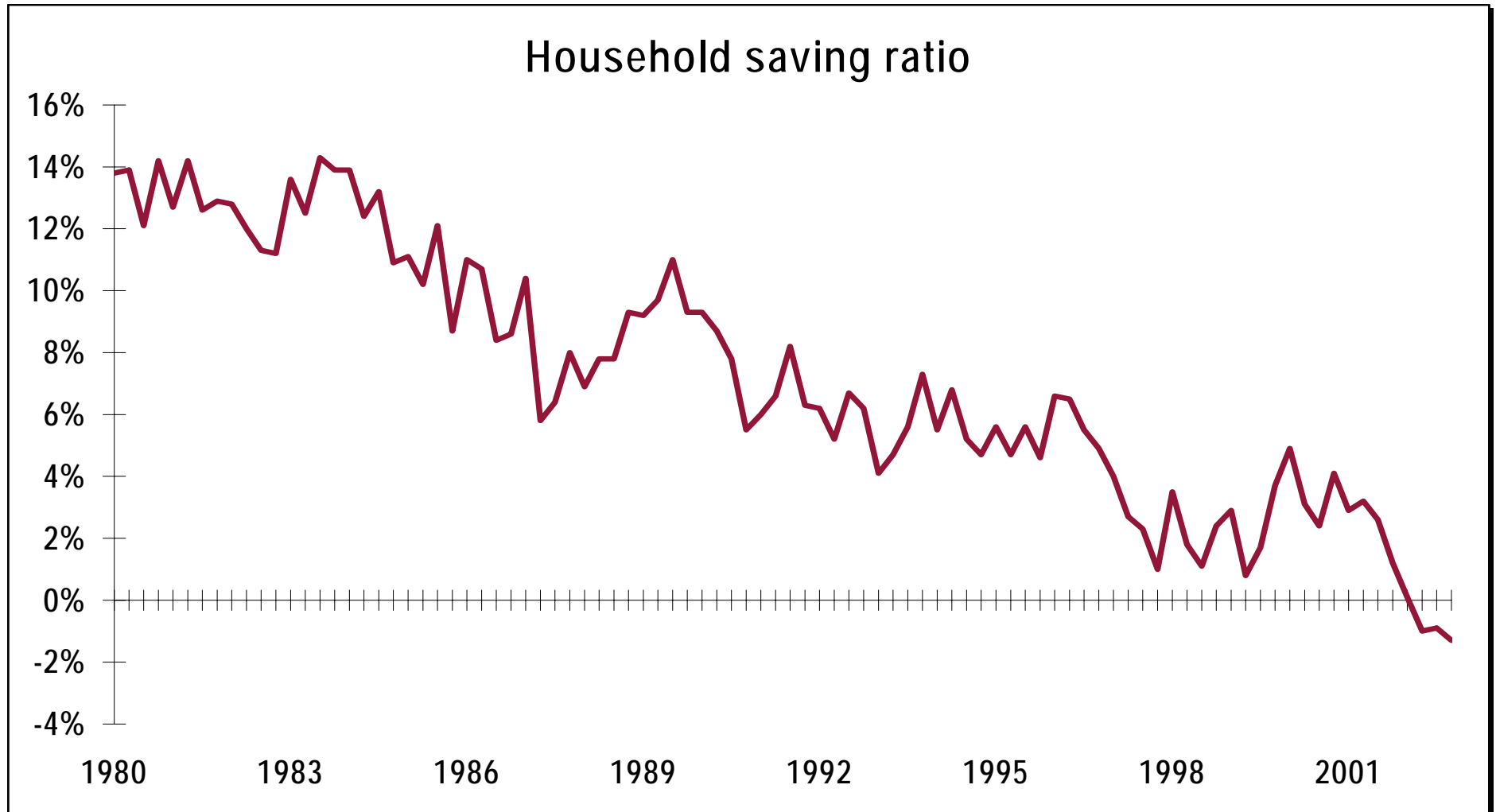
(2) Housing may be headed down



(3) Housing makes the world go round - manufacturers upstream, retailers down



(4) Rates also a risk as the punters are spending all their recurrent income

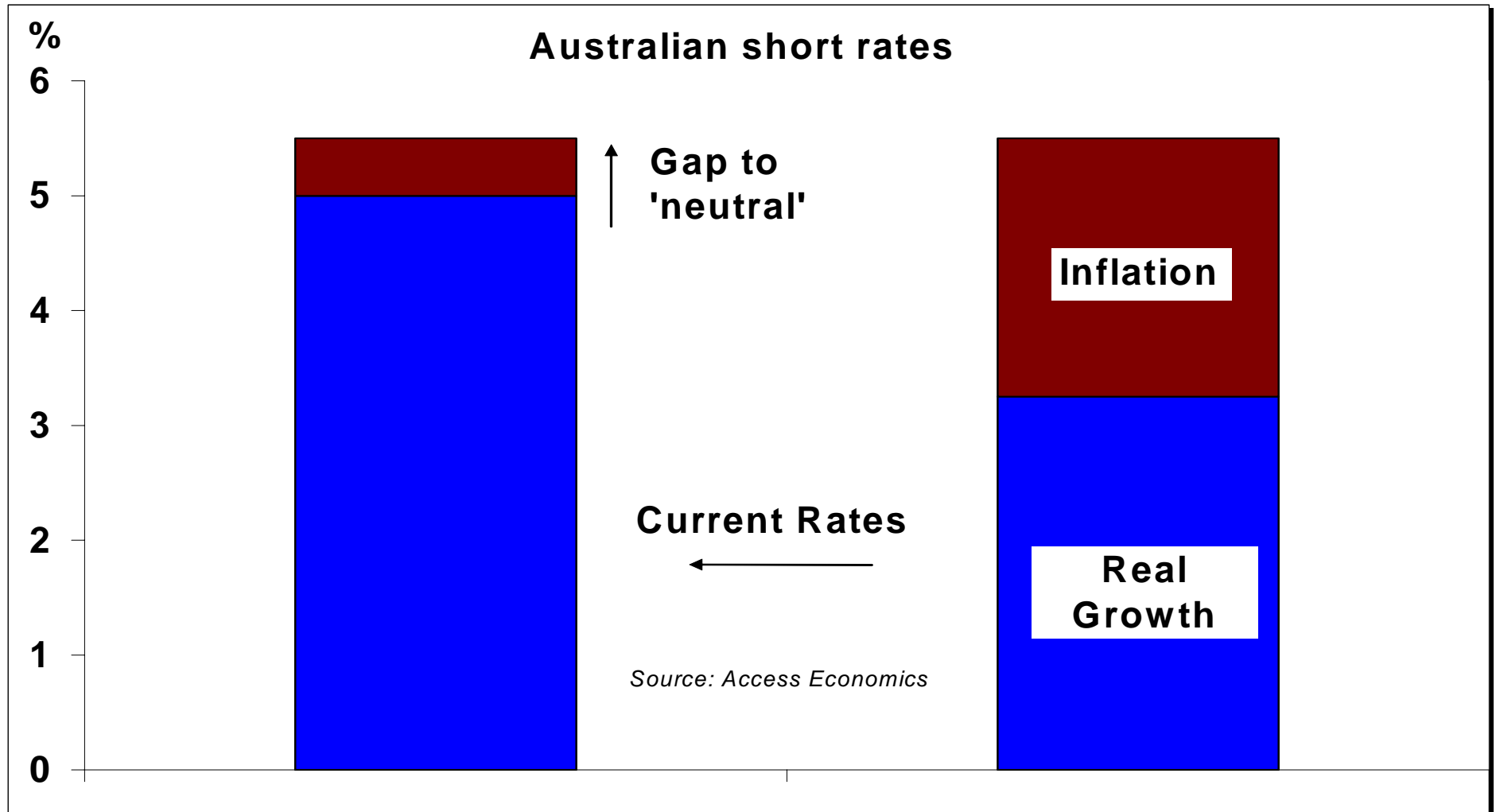


What is most likely?

- Or, in other words, our success on **productivity** performance is at risk because of reform fatigue.
- And our success on **competitiveness** is fading as the \$A rises and the \$US falls.
- And the **cycle** may have seen its best due to a change in direction from both interest rates (headed up) and housing construction (headed down).
- But it is too easy to be too negative - *what is likely* (as opposed to *what could go wrong*)?

What is most likely?

(1) No 17% mortgage rate looms



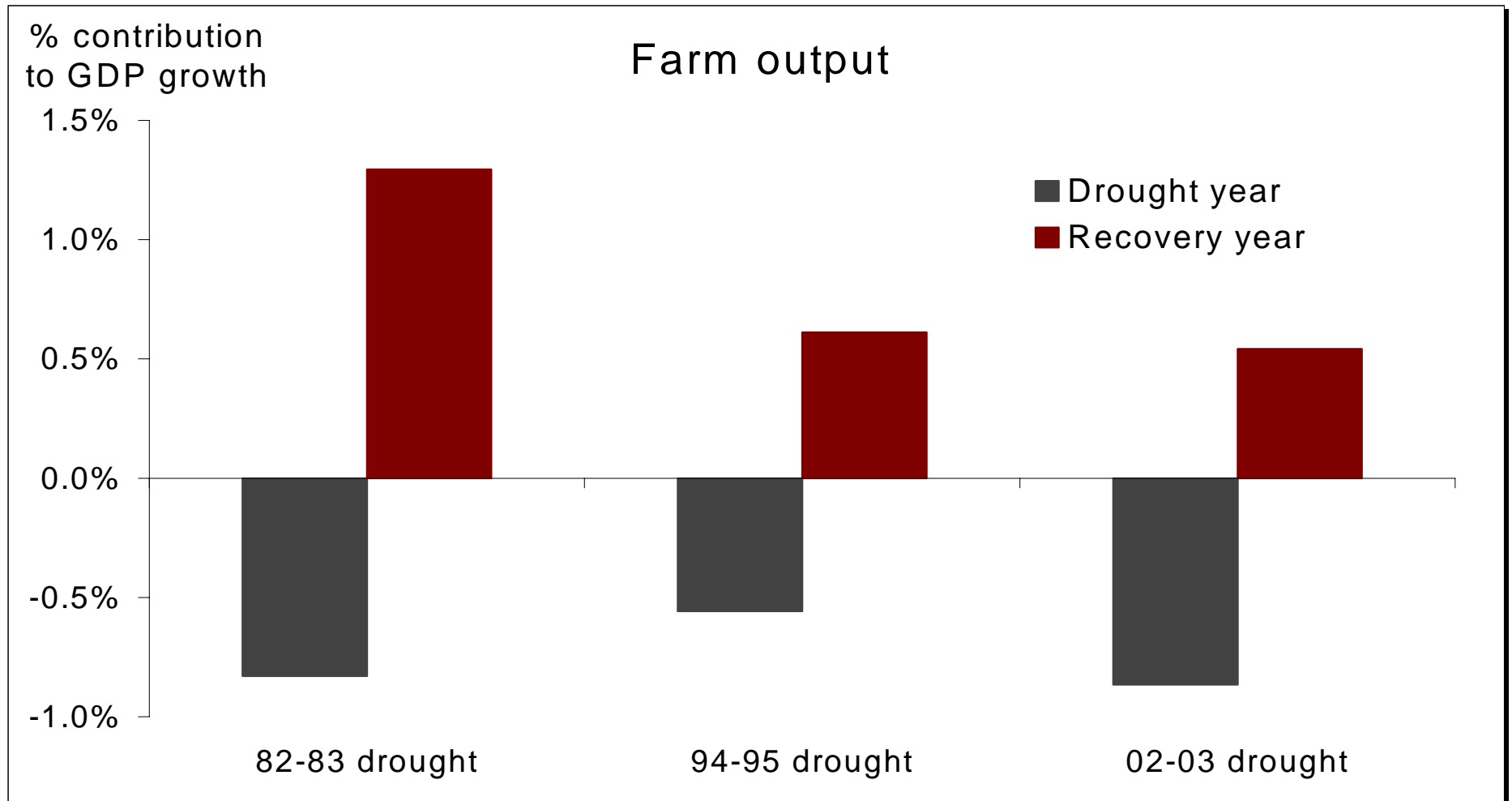
What is most likely?

(2) Housing prices crackle, not pop

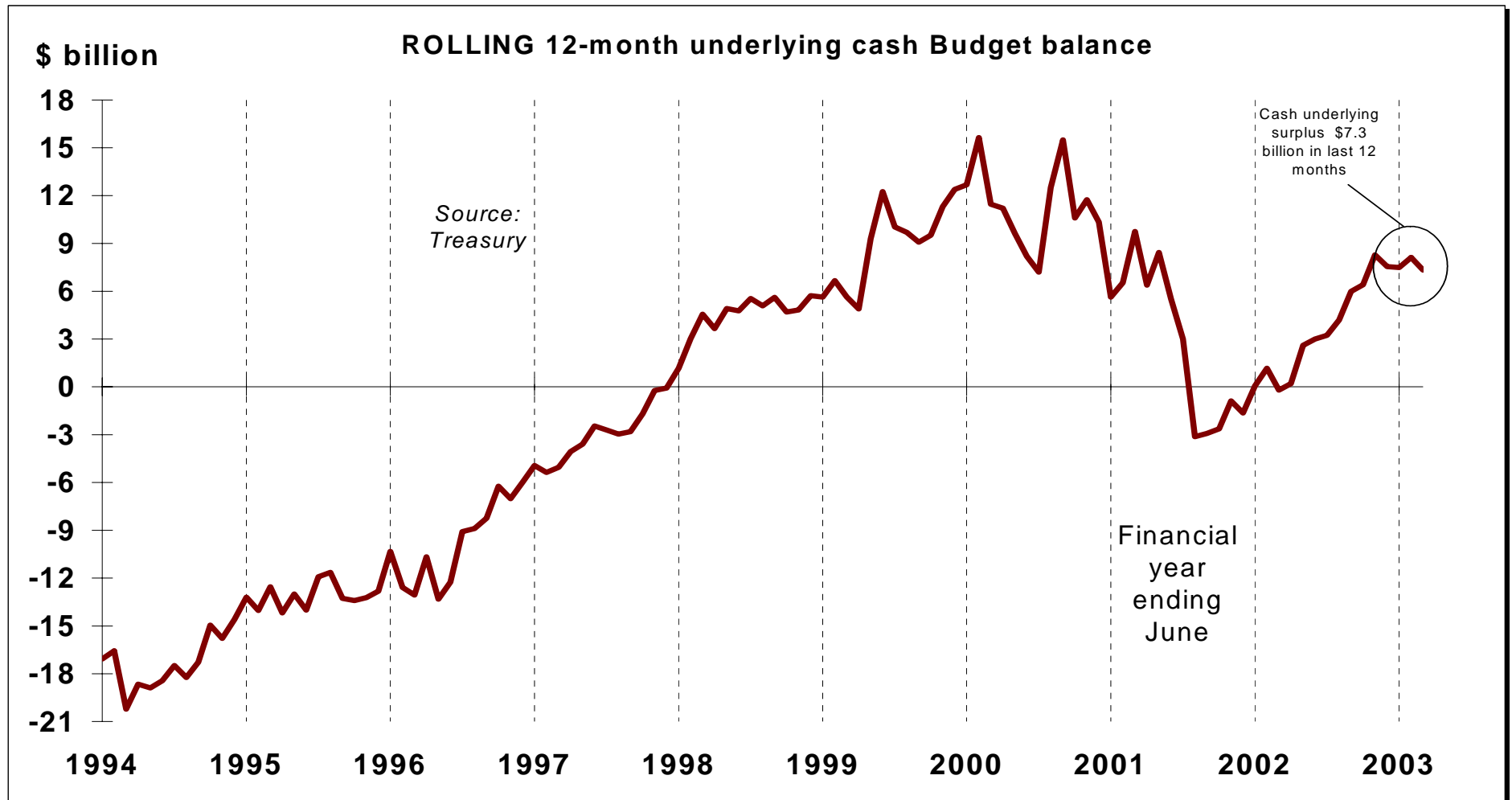
- We have seen something like 6 or 7 years of trend price gains in housing squeezed into the last 2 years - they have been crackling along at a snapping pace - but might housing prices now pop?
- RBA's task, amid the most interest rate sensitive economy in the world, is to make housing prices stall rather than crash.
- Much depends on developments in the rest of the world, and in the \$A, but Reserve is well aware of the risks.

What is most likely?

(3) The weather is on our side



What is most likely? (4) A pre-election tax cut ...



What is most likely?

(5) Growth rising, but jobs modest

