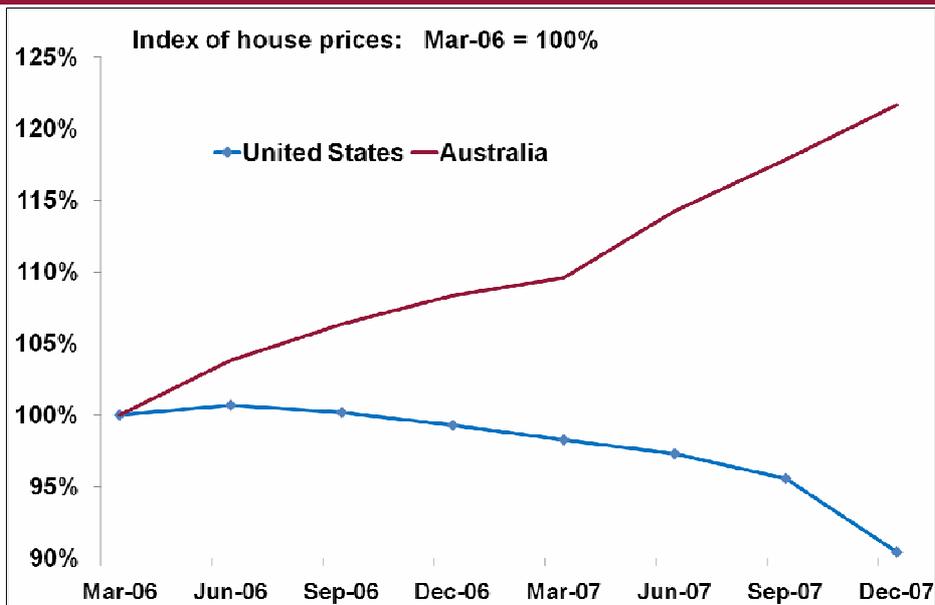


Budgeting for the 'burbs

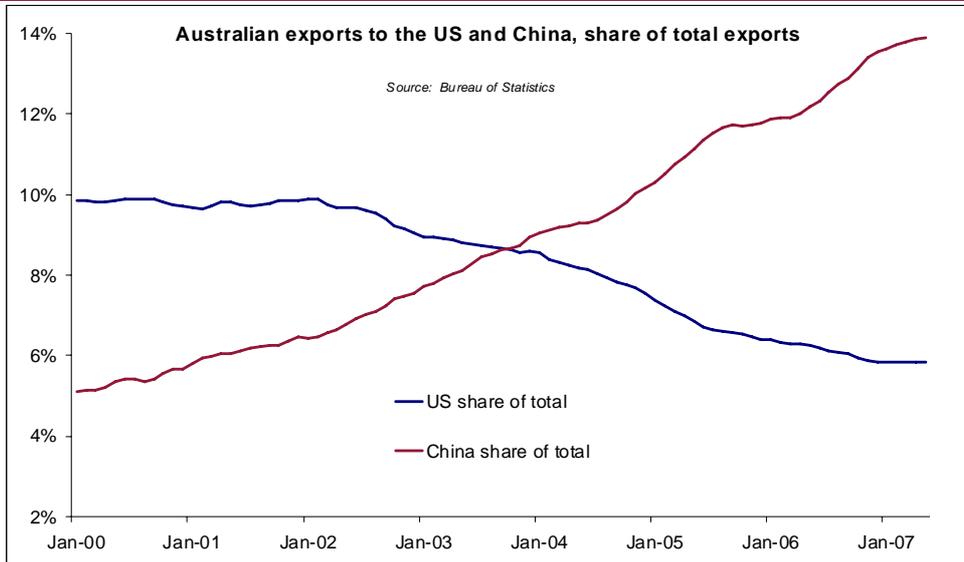
Chris Richardson
ACCESS ECONOMICS
27 March 2008



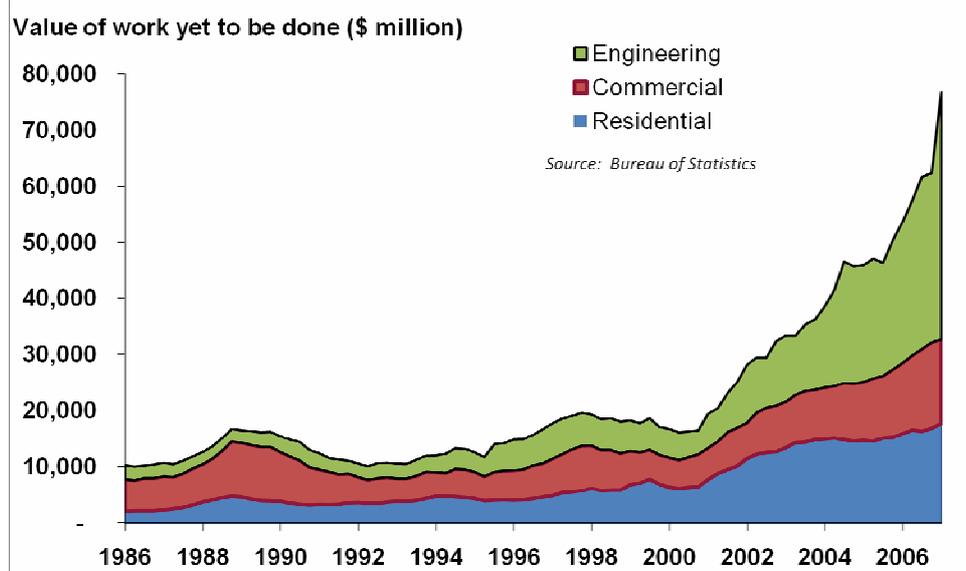
The US is in recession



But Australia may not slow much, given the falling importance of the US to our exports



And the huge bumper bar of construction's pipeline also suggests we will be fine in 2008

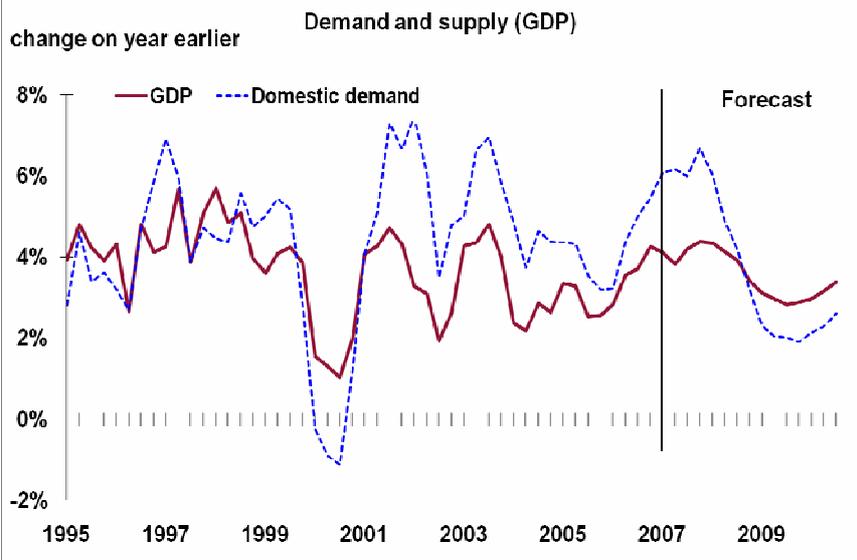


Yet all our eggs are now in the China basket

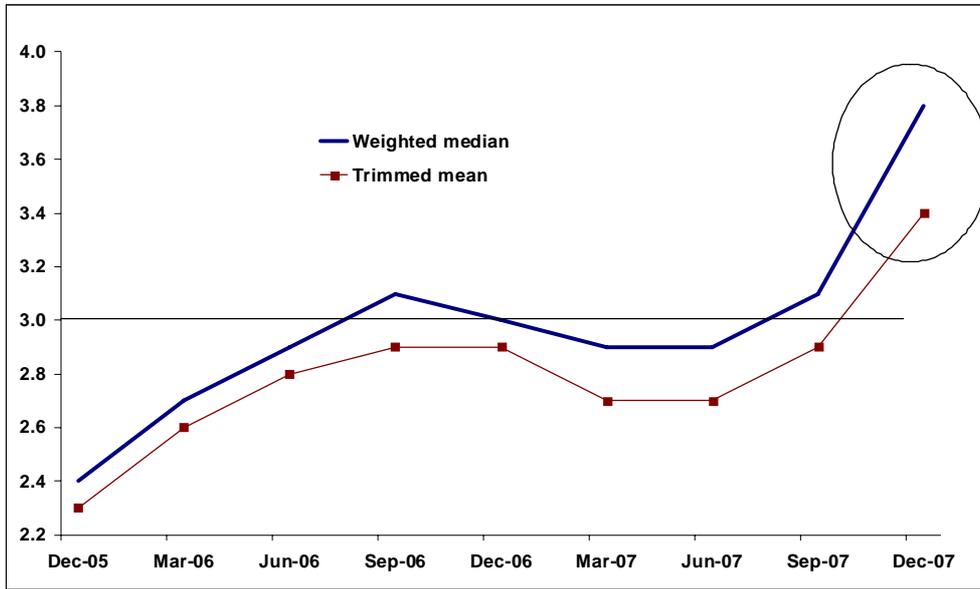
	INDUSTRIAL PRODUCTION GROWTH				
	Consensus Forecasts				
(% change on previous year)	2005	2006	2007	2008	2009
United States	3.2	4.0	1.9	1.5	2.8
Japan	1.5	4.5	2.6	2.7	3.1
Euro zone	1.4	4.0	3.4	2.1	2.2
China	16.4	16.6	17.6	16.1	15.1
Australia	1.9	0.3	3.3	3.9	3.0
World	4.5	6.2	5.4	4.7	4.8

¹ country weights available to qualified subscribers upon request.

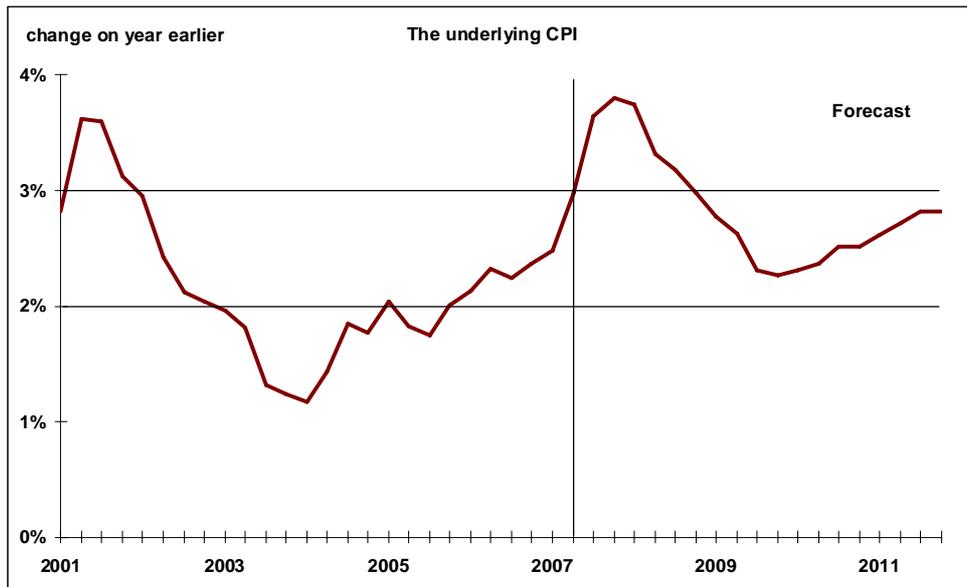
We are responding to the China challenge – but demand is rapid



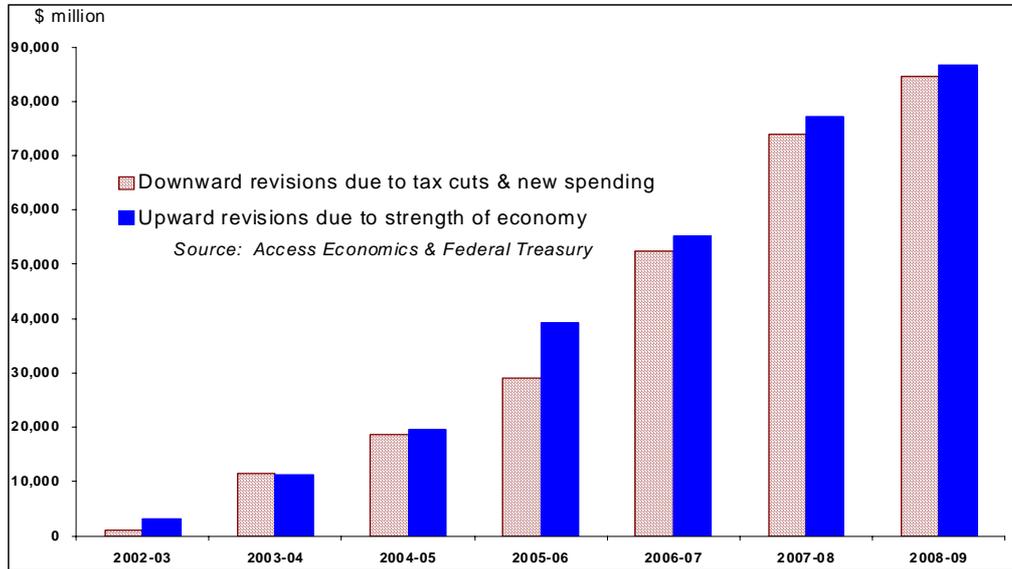
Too rapid ... leading to inflation



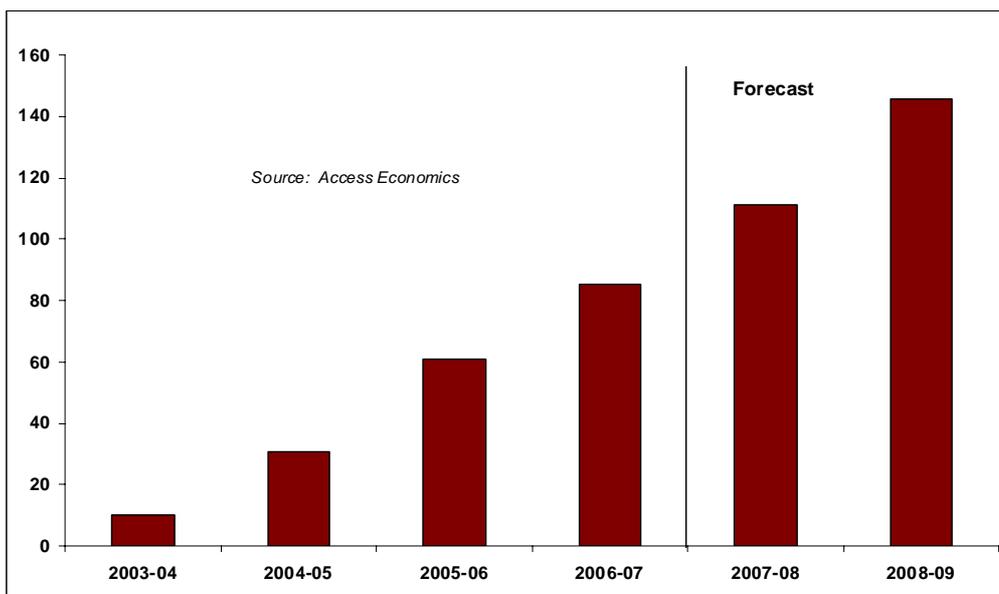
Suggesting inflation will linger on (perhaps intractably) into early 2009



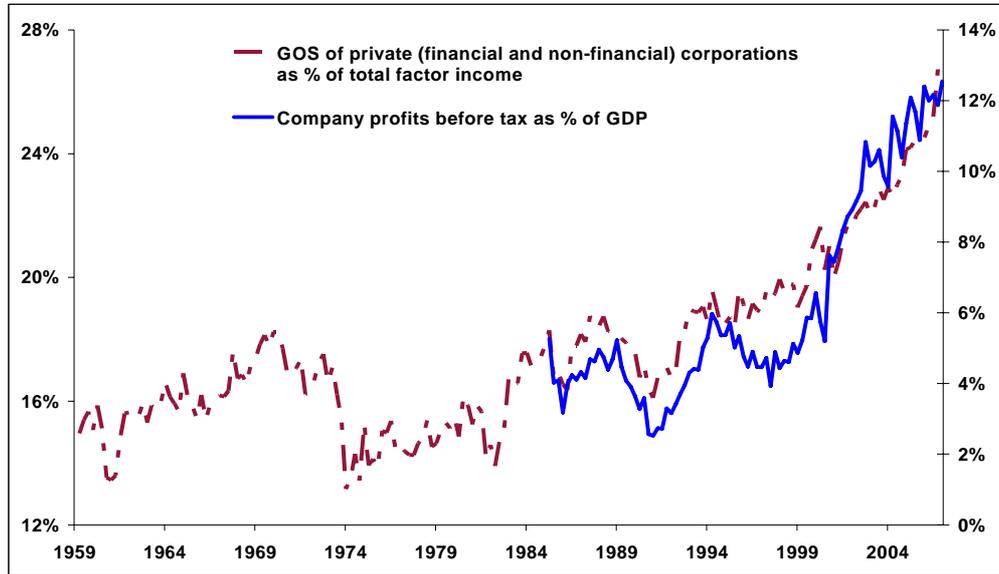
As there are (lots) more tax cuts still to come



And more commodity dollars headed our way



Meaning profits have further to rise – this can't last forever, but will last through 2008



Budgeting for the 'burbs

- Australia's economy will be fine while China's is – protected in 2008 by rising commodity prices and by the superb 'bumper bar' of the construction pipeline.
- But that means our inflation remains a problem, and winding back demand growth (@ \$3 bn for every ¼%) will necessarily involve pain – there is no easy option.
- The Federal Budget allows the Government to help spread the pain. But will it take that option?
- So far it has caved in much like the Coalition was doing.
- The suffering suburbs need to turn to Table 2 to check 'Total policy decisions impact on fiscal balance' – ready to cheer delayed tax cuts or notable spending cuts.
- To date the forces of darkness are winning ... and too much of the adjustment burden is falling on too few.

What is Policy Plan B?

- **The better China looks, the more work that the Government has to do.**
- **The Government's Plan A allows for the tax cuts to go ahead and for some tightening of spending.**
- **But what if inflation stays high and global credit markets settle?**
- **Suddenly, just a week or so before the Budget, the Government could face another 100 basis points of tightening.**
- **Does the Government have a Plan B?**



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