

Will the Budget recover alongside the economy?

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The green shoots are real, but 2009 is still a rotten year globally

- The defining characteristic of the past year is that **the global banking system broke down**.
- But policy moved fast, and **the green shoots are real**.
- The **US** and **Japan** have both commenced recoveries – though both face important headwinds.
- **China** and developing Asia have rebounded the most strongly, and **Europe** least strongly.
- **For Australia, China's influence has been central.**

US commercial property, Eastern Europe's economies, and China's commodity buying

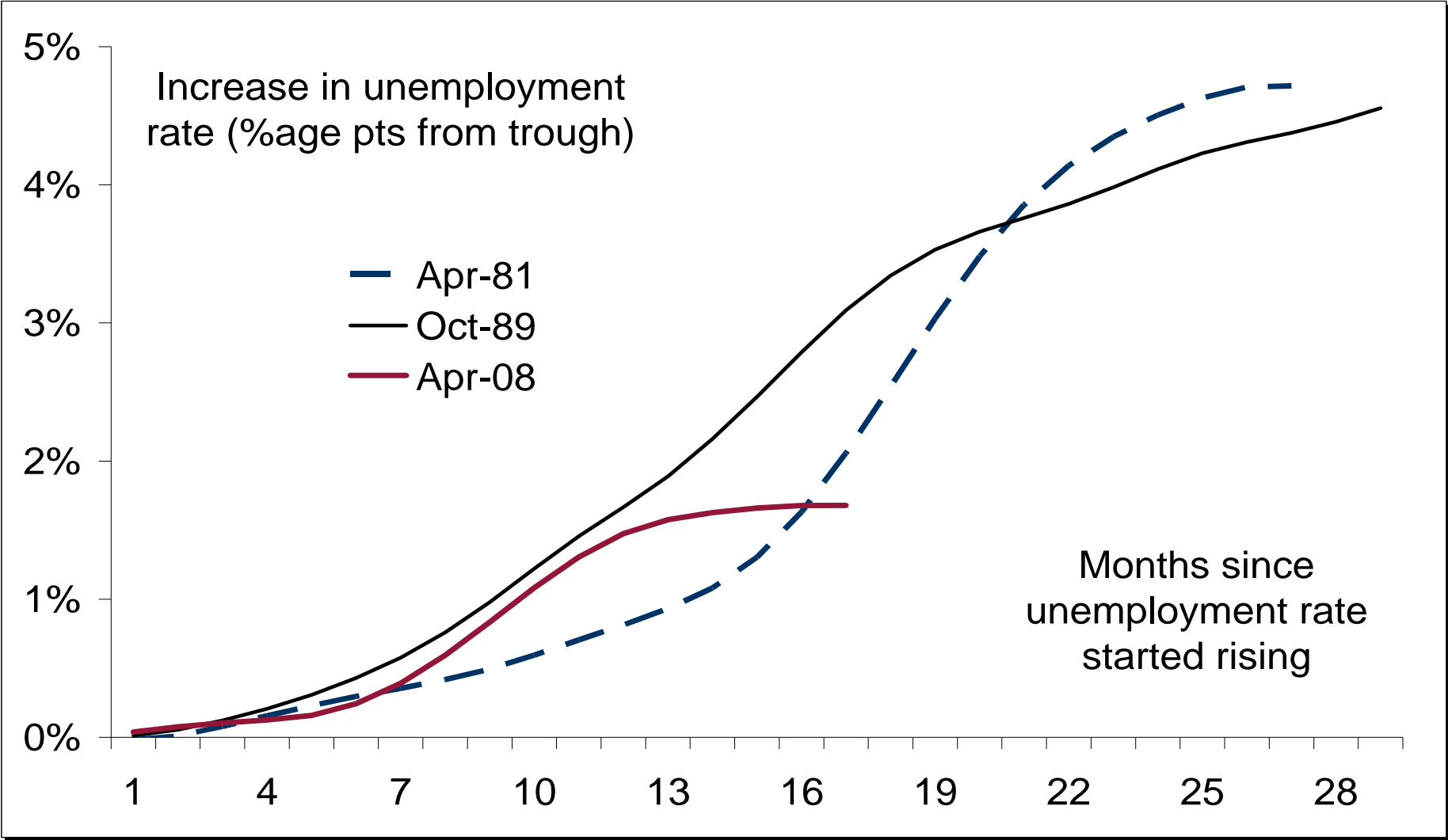
- There are still global risks.
- Even though the most likely scenario is continuing global recovery, **US commercial property** remains a risk, as do **Eastern Europe's economies**.
- And the better China does in 2009 and 2010, the greater is the risk it weakens in 2011, bringing down commodity earnings.
- So even in the world's fastest growing economy and its commodity-intensive demands, **China's current rate of commodity buying is simply unsustainable.**

Australia is better off than most – and would have been without the helping hand from China

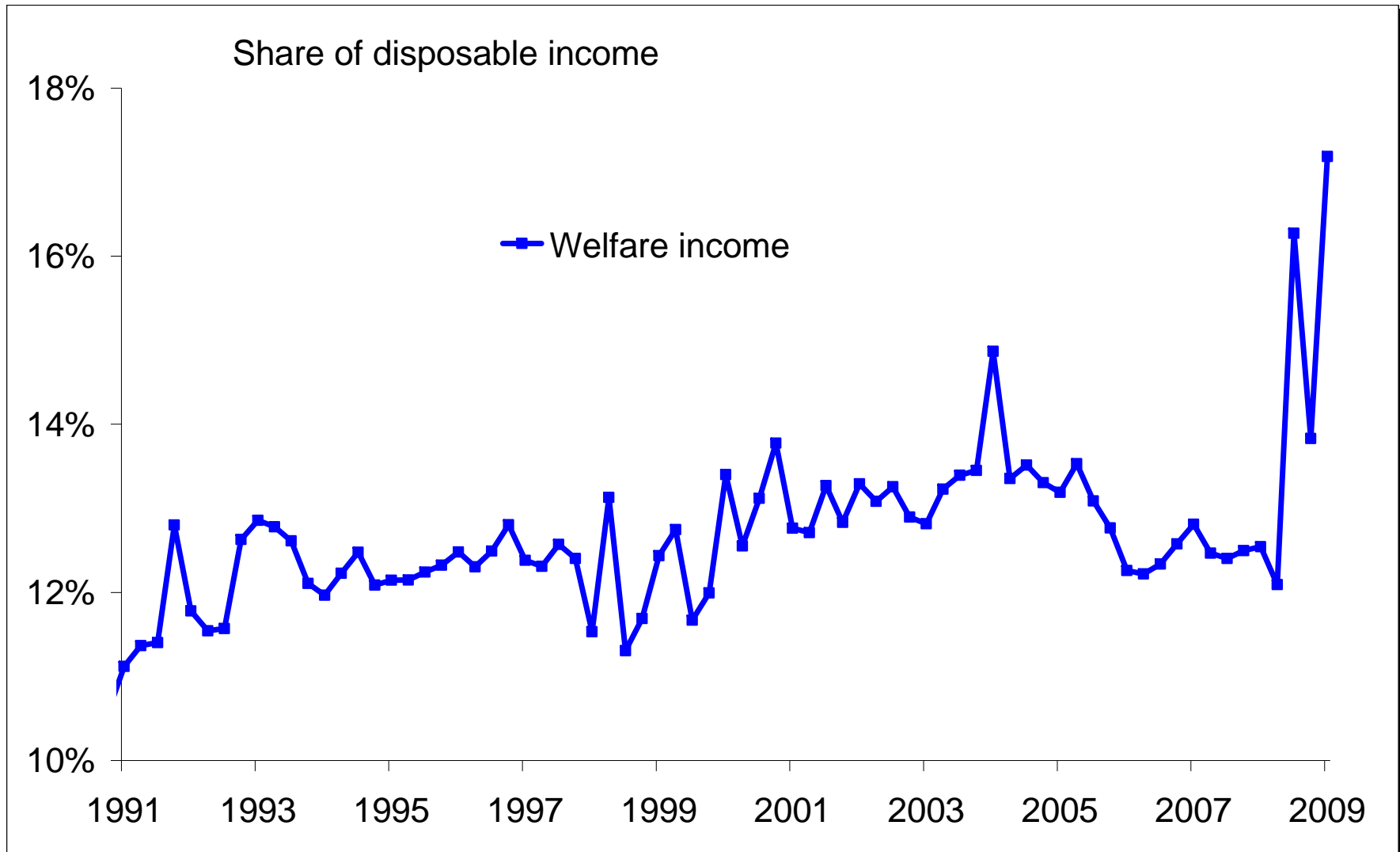
There are key reasons to be optimistic, including:

- the good health of **our banks**,
- the big stomp on the accelerator from Australian policymakers (**large and fast stimulus packages and big cuts to interest rates**),
- **the sharp fall in the \$A** in the second half of 2008,
- **our rapid population growth**,
- **the lack of vacancies in housing markets and the large pipeline of engineering and commercial construction yet to be done.**

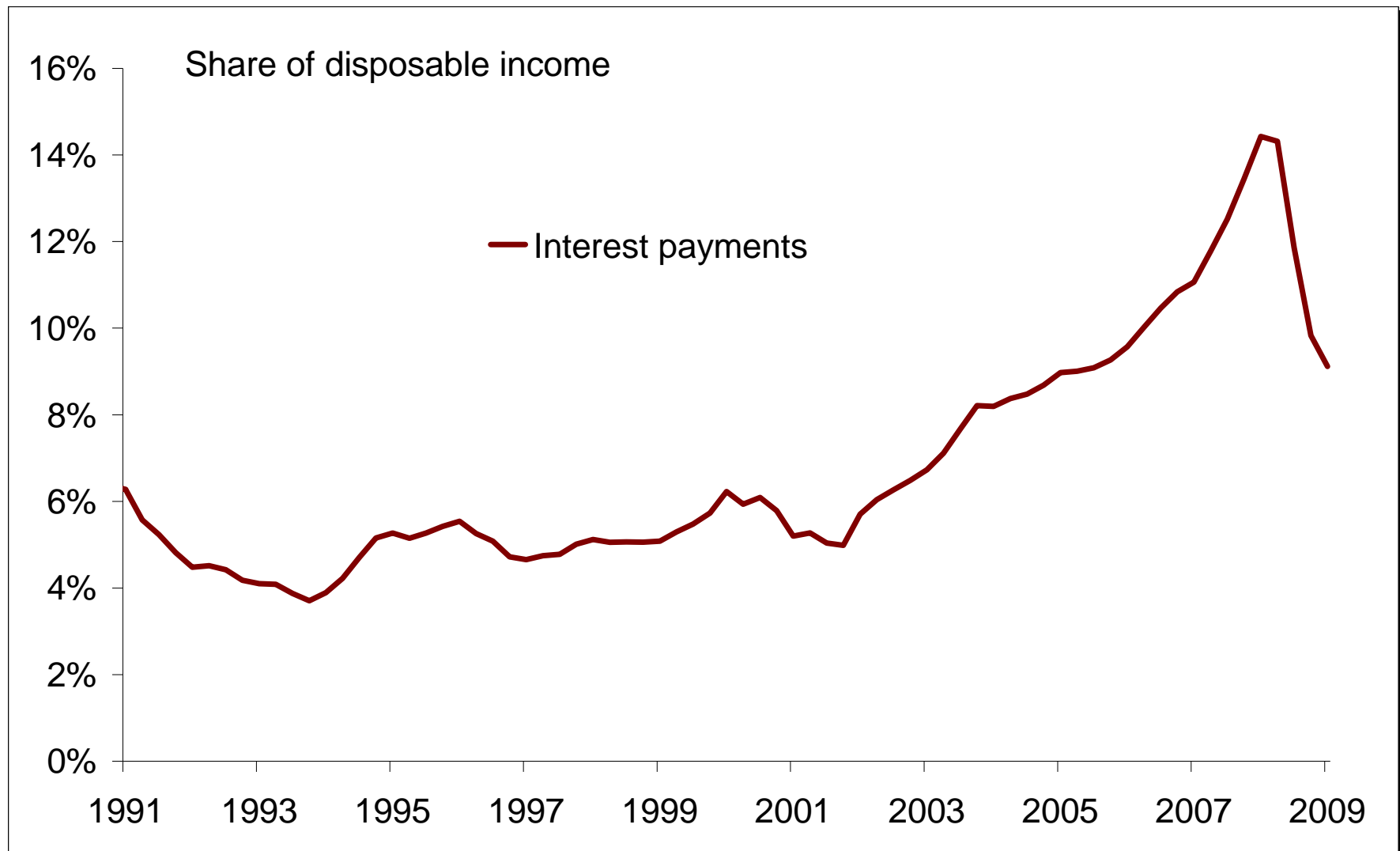
With unemployment here peaking at perhaps 6.5-6.8% - not 8.5% ...



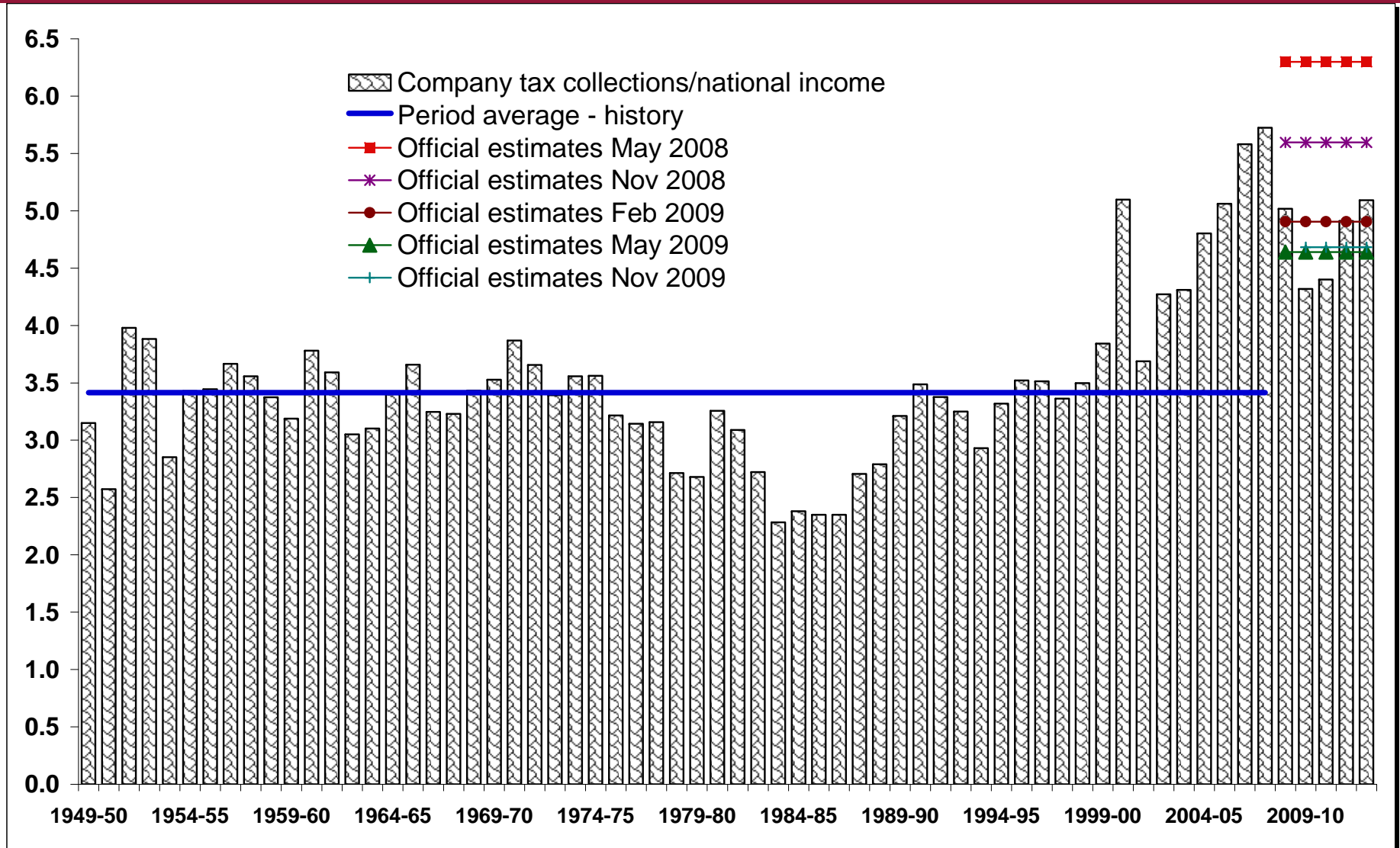
But don't underestimate just how much of Australia's outperformance was built on stimulus



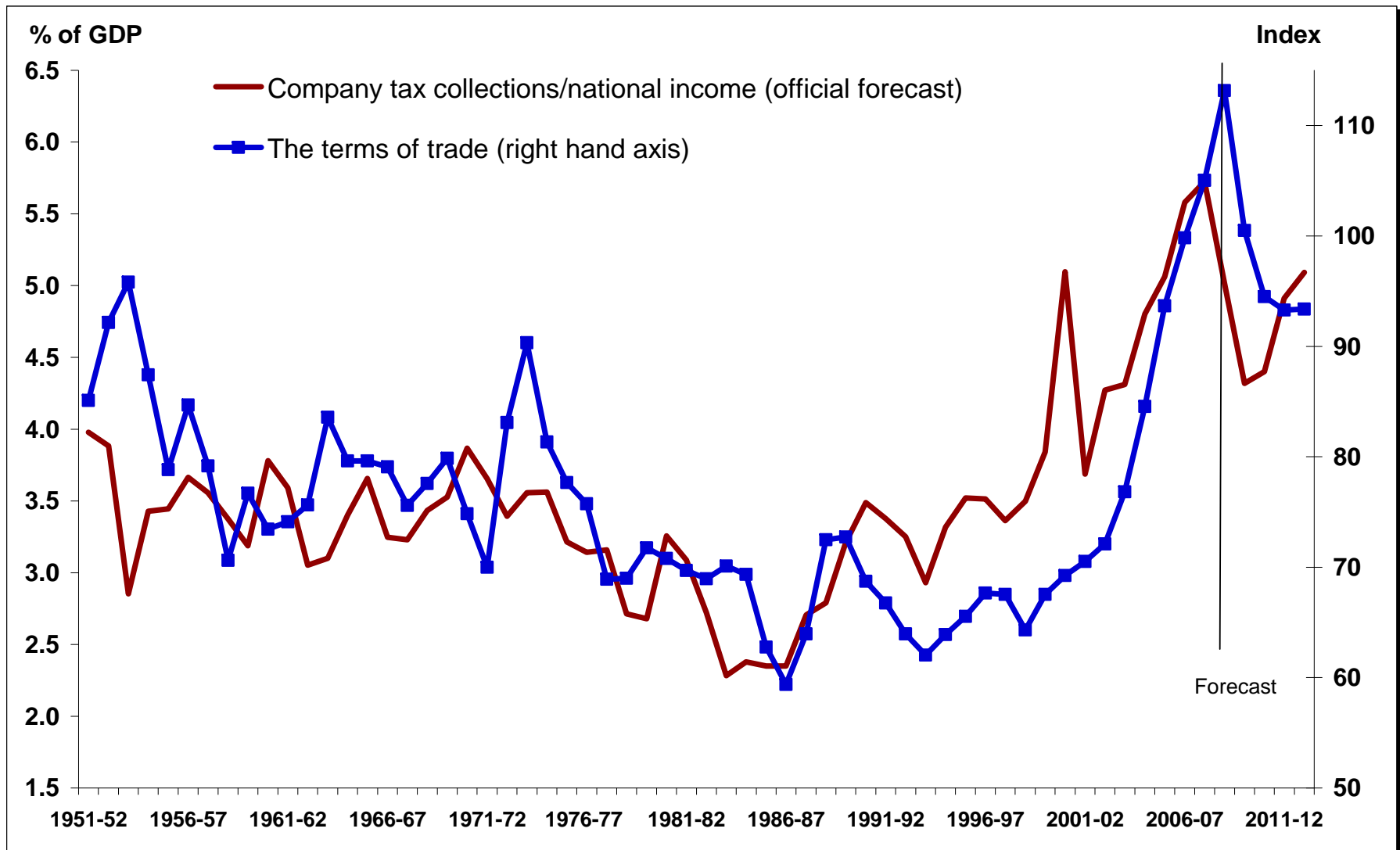
The cash splash has already finished, and Reserve Bank rates are heading up already



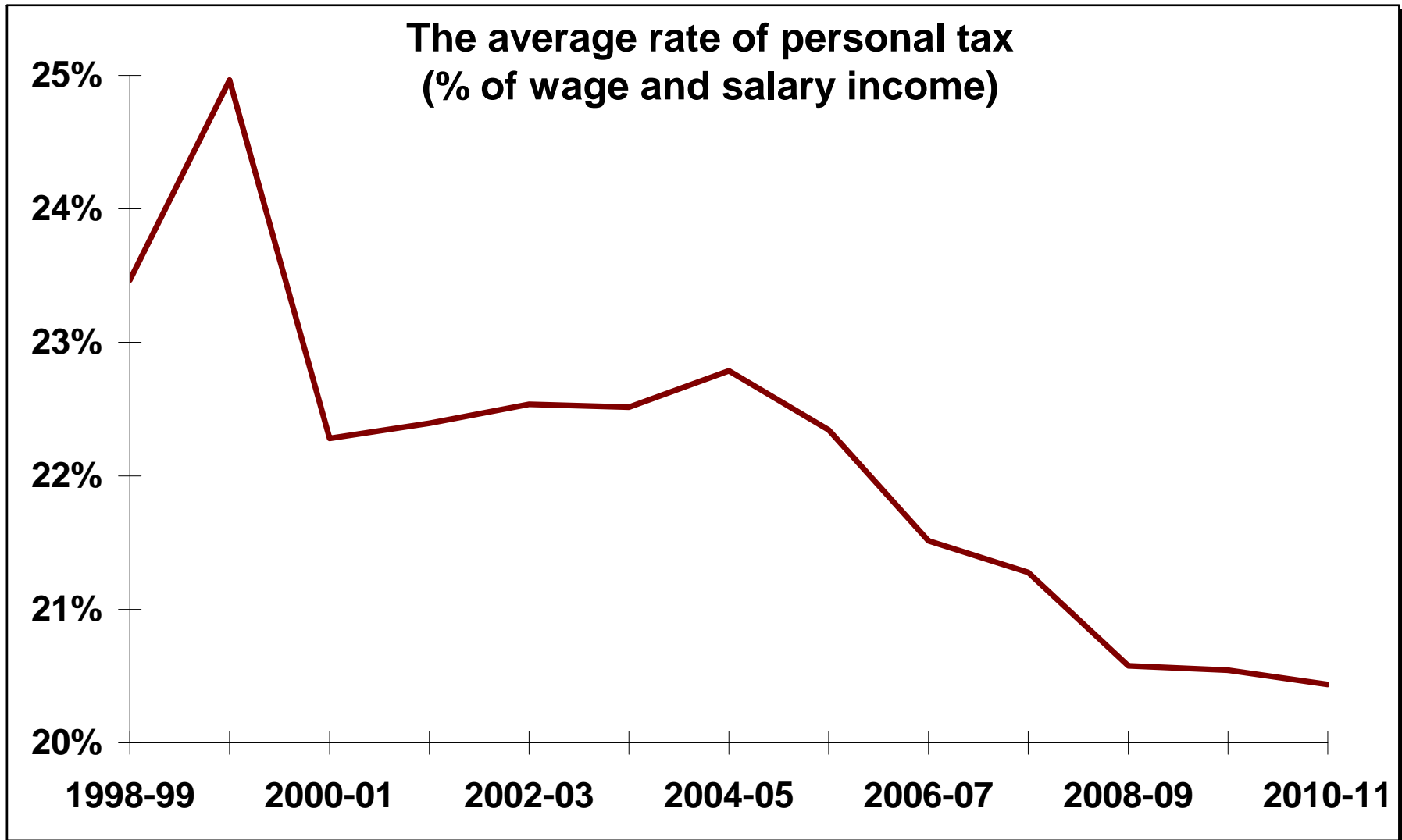
Some of the Budget boom was temporary



The Federal Budget relies on profits, which depend on the world



And we overshot on tax cuts



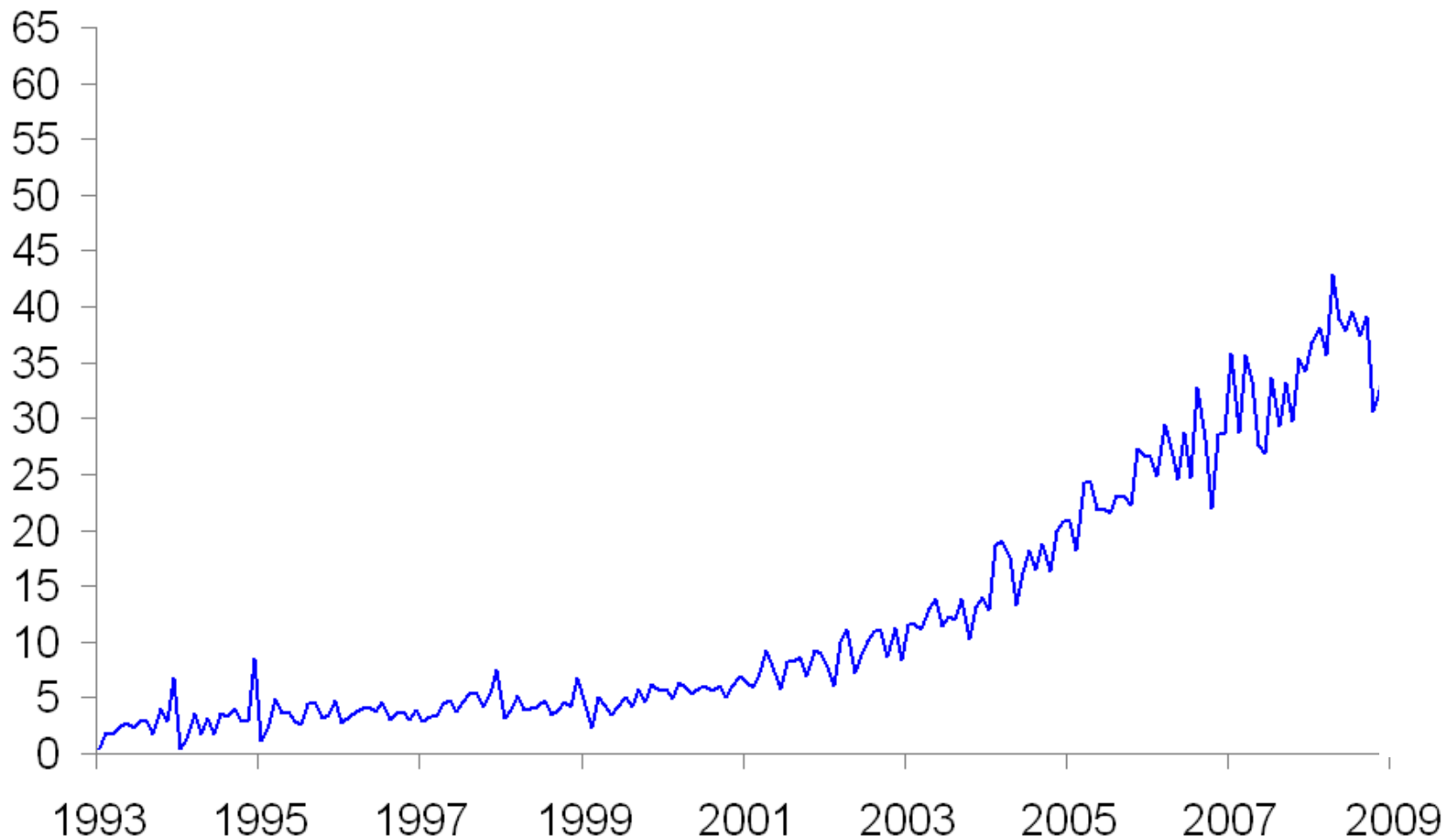
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Which implies the need to save about \$16 billion a year. And that's not easy. Pick one of these ...

- Abolish all education payments to the States.
- Or abolish all health payments to the States.
- Or abolish all family benefits.
- Or raise age pension eligibility age to 100 rather than to 67.
- Or abolish all disability and carer pensions.
- Or abolish Medicare funding.
- Or raise the GST to 14%.
- Or pay 45% tax on any income earned above \$50,000.

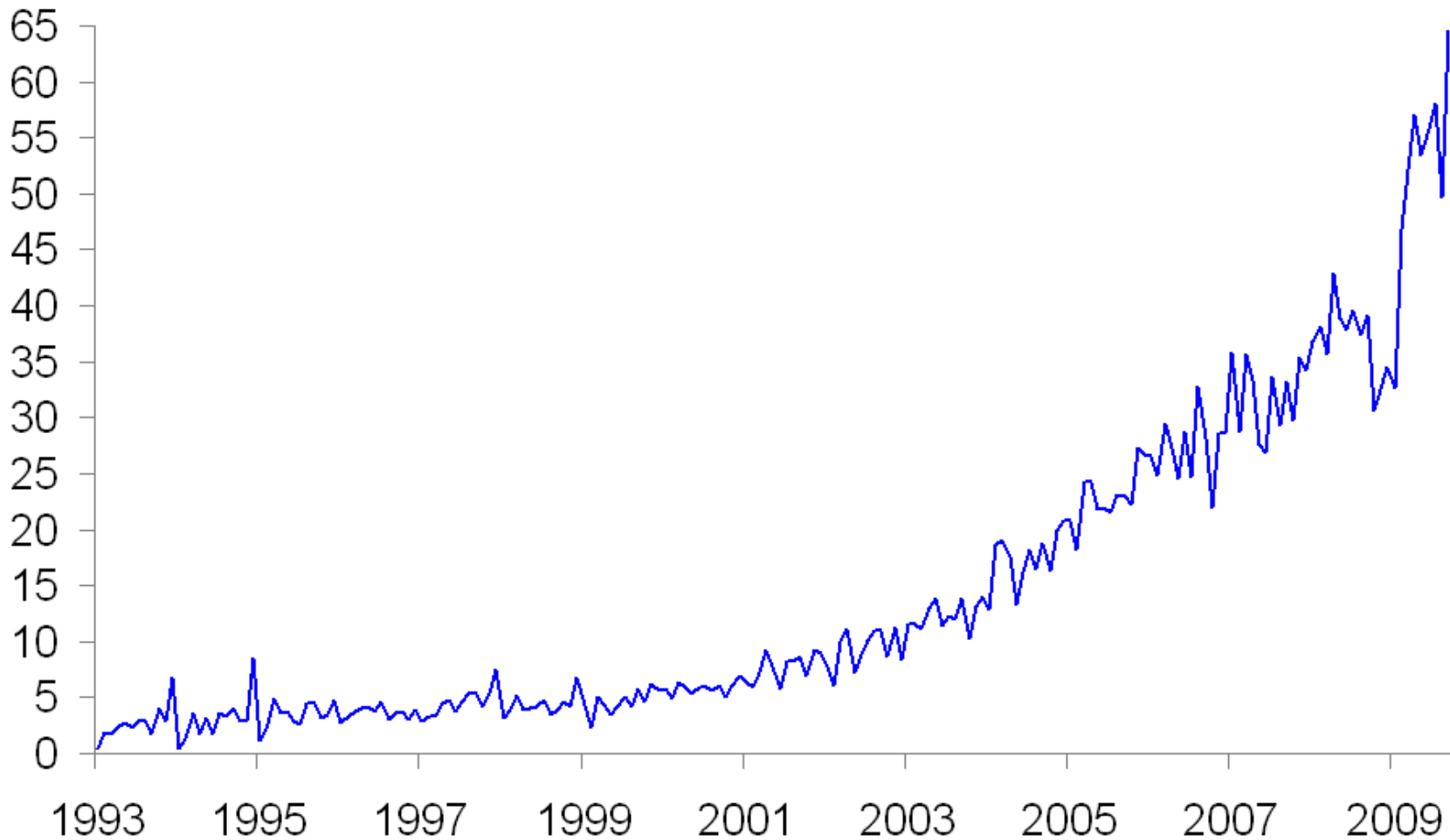
China's iron ore buying was great ...

Monthly iron ore imports into China: millions of tonnes



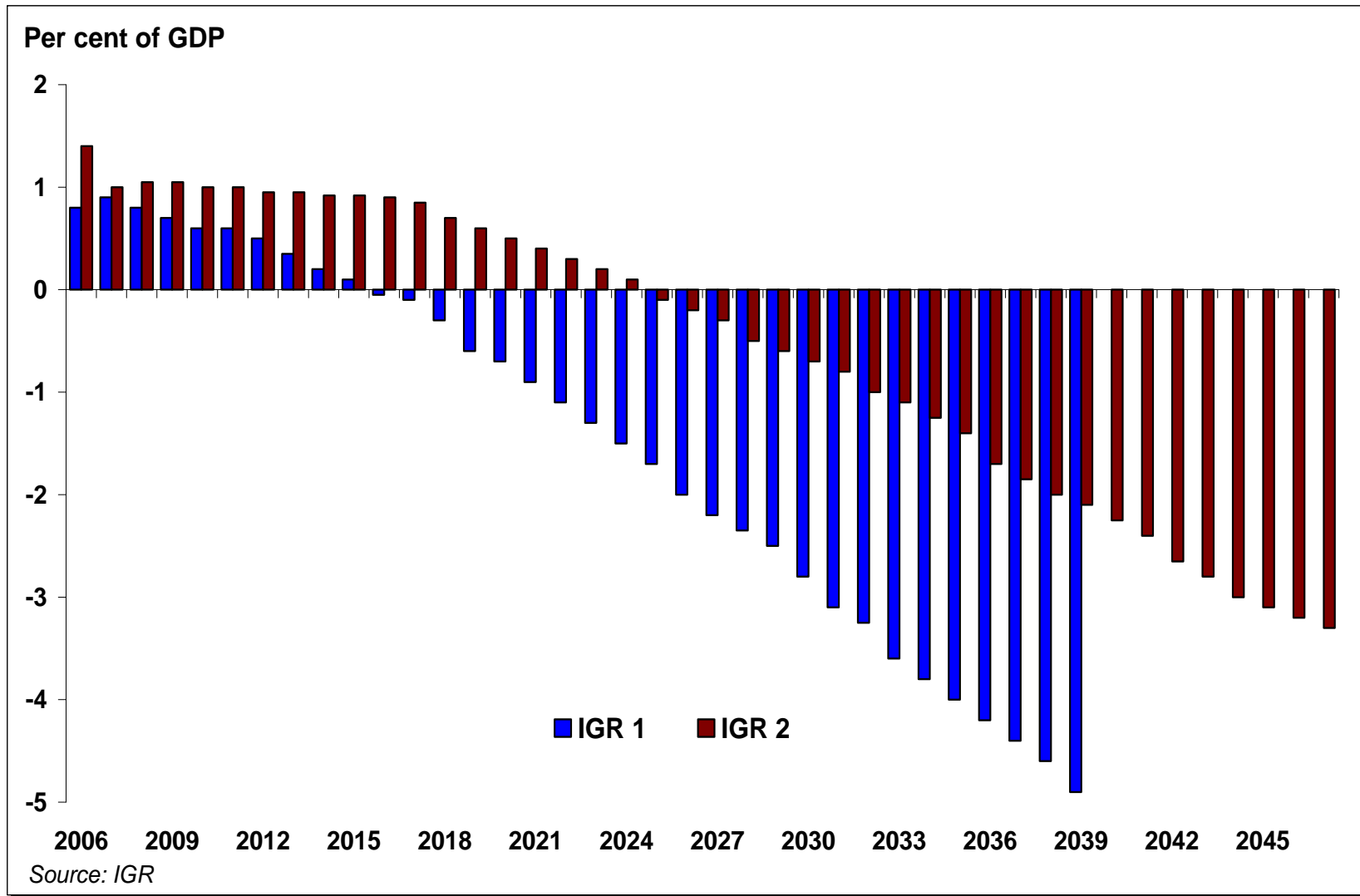
... and then it became (unsustainably) astounding

Monthly iron ore imports into China: millions of tonnes

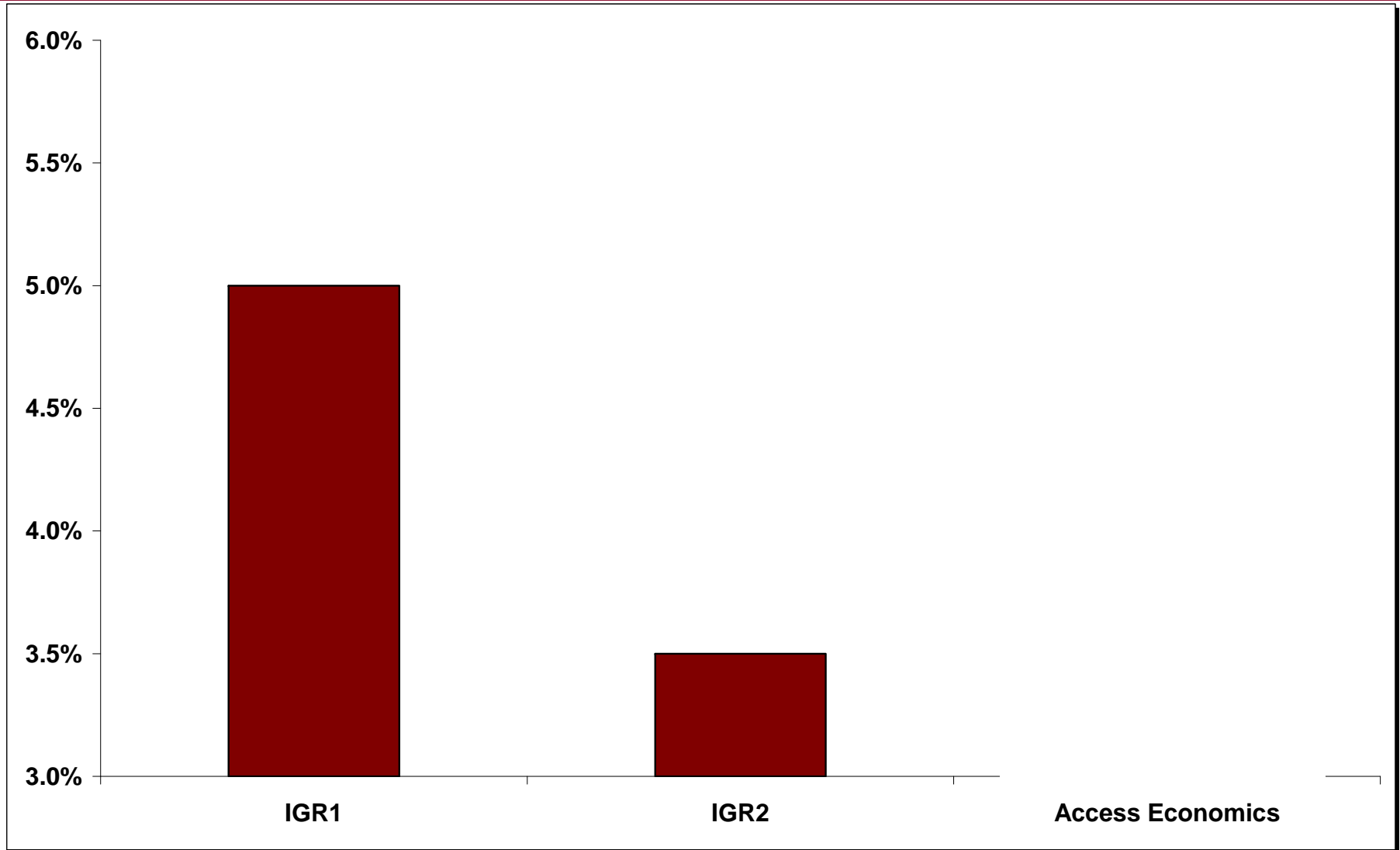


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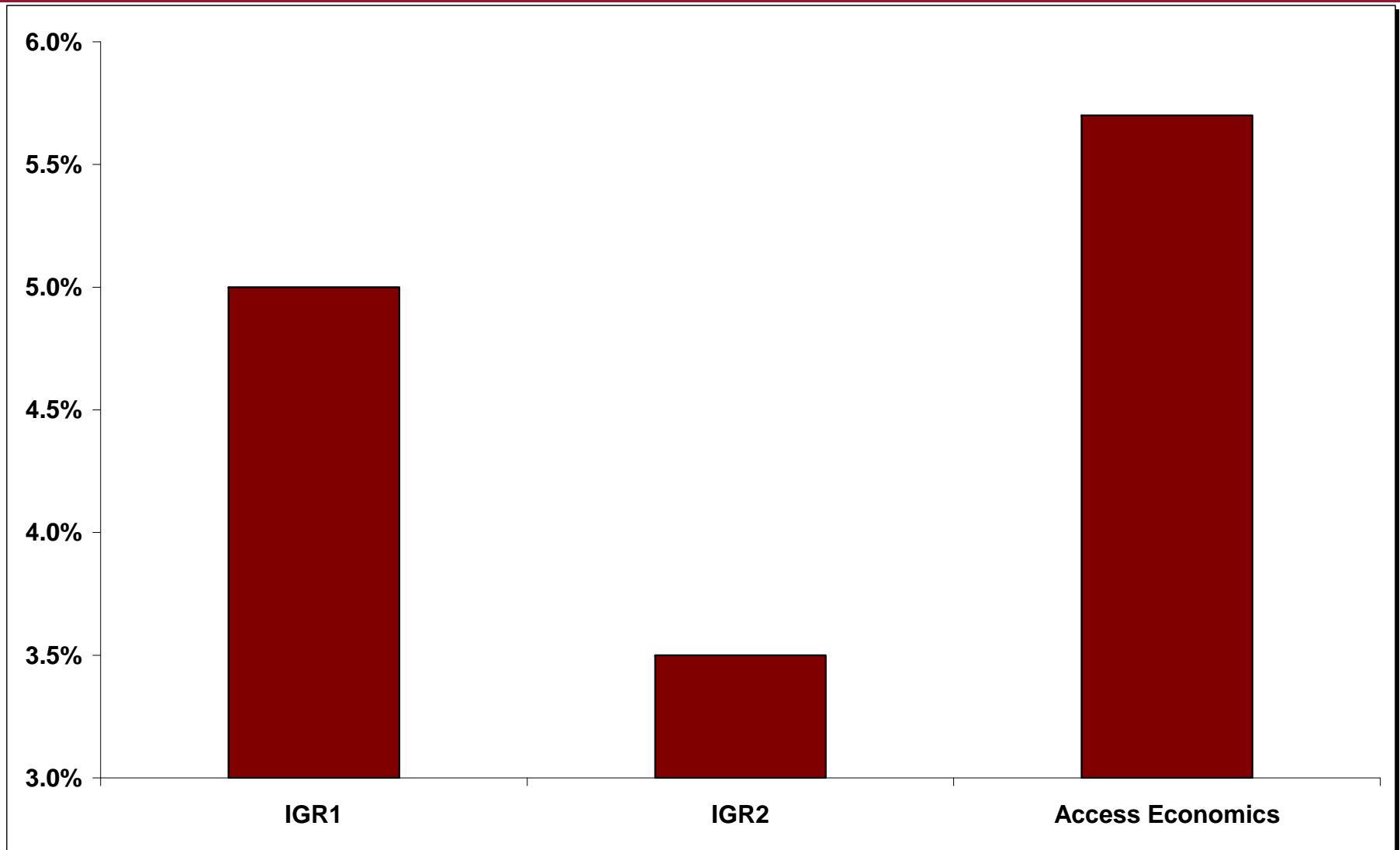
IGR 1 versus IGR2 budget projections



IGR 1, IGR2 and AE's projections of future deficits



IGR 1, IGR2 and AE's projections of future deficits



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