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2011 Economic and social outlook conference:

Managing the growth shock

Chris Richardson

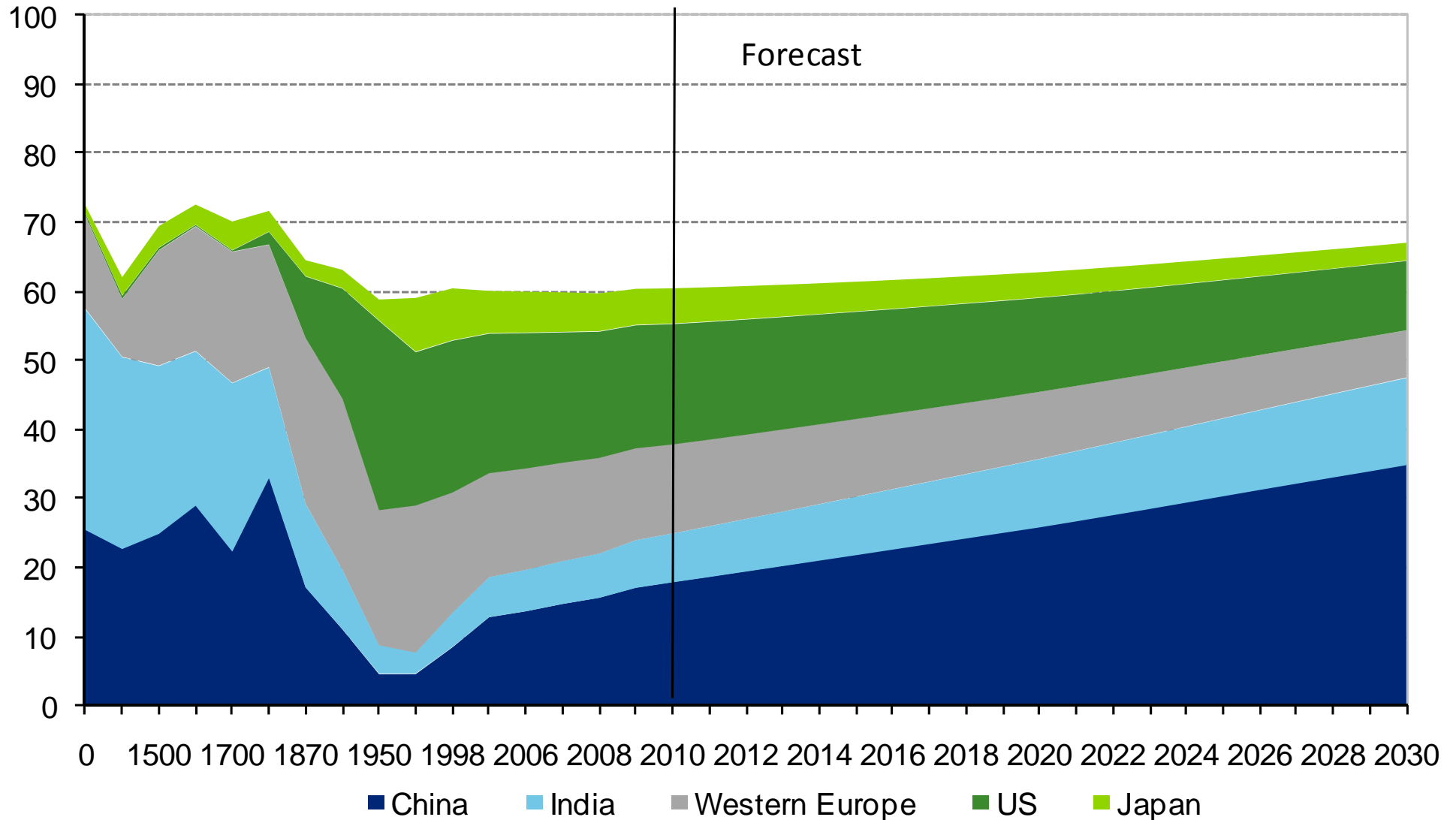
Deloitte Access Economics

30 June 2011



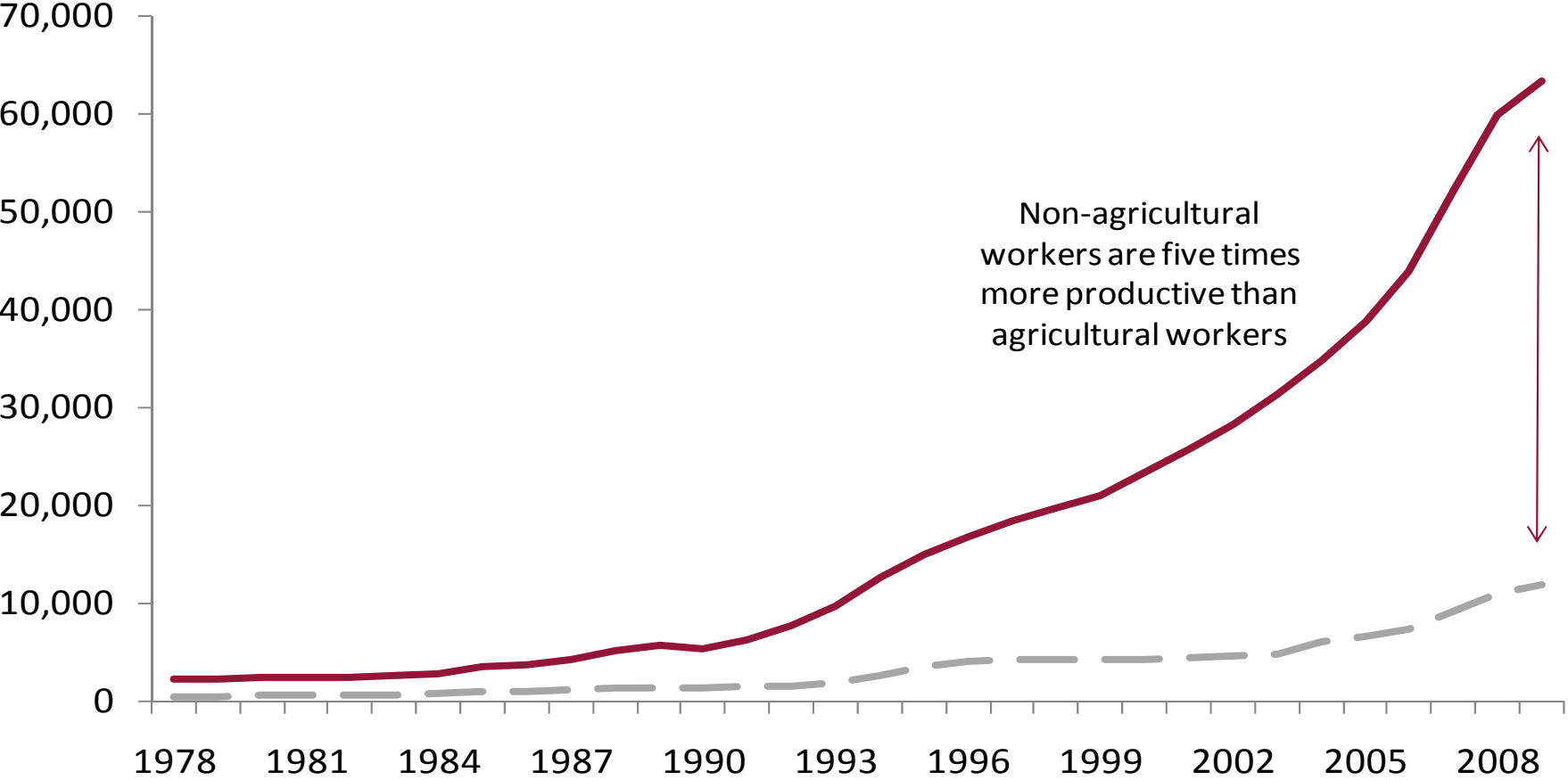
A global industrial revolution

Share of world output



Increasing urbanisation means greater productivity dividend in China

Output per worker (Yuan, current prices)



Source: EcoWin

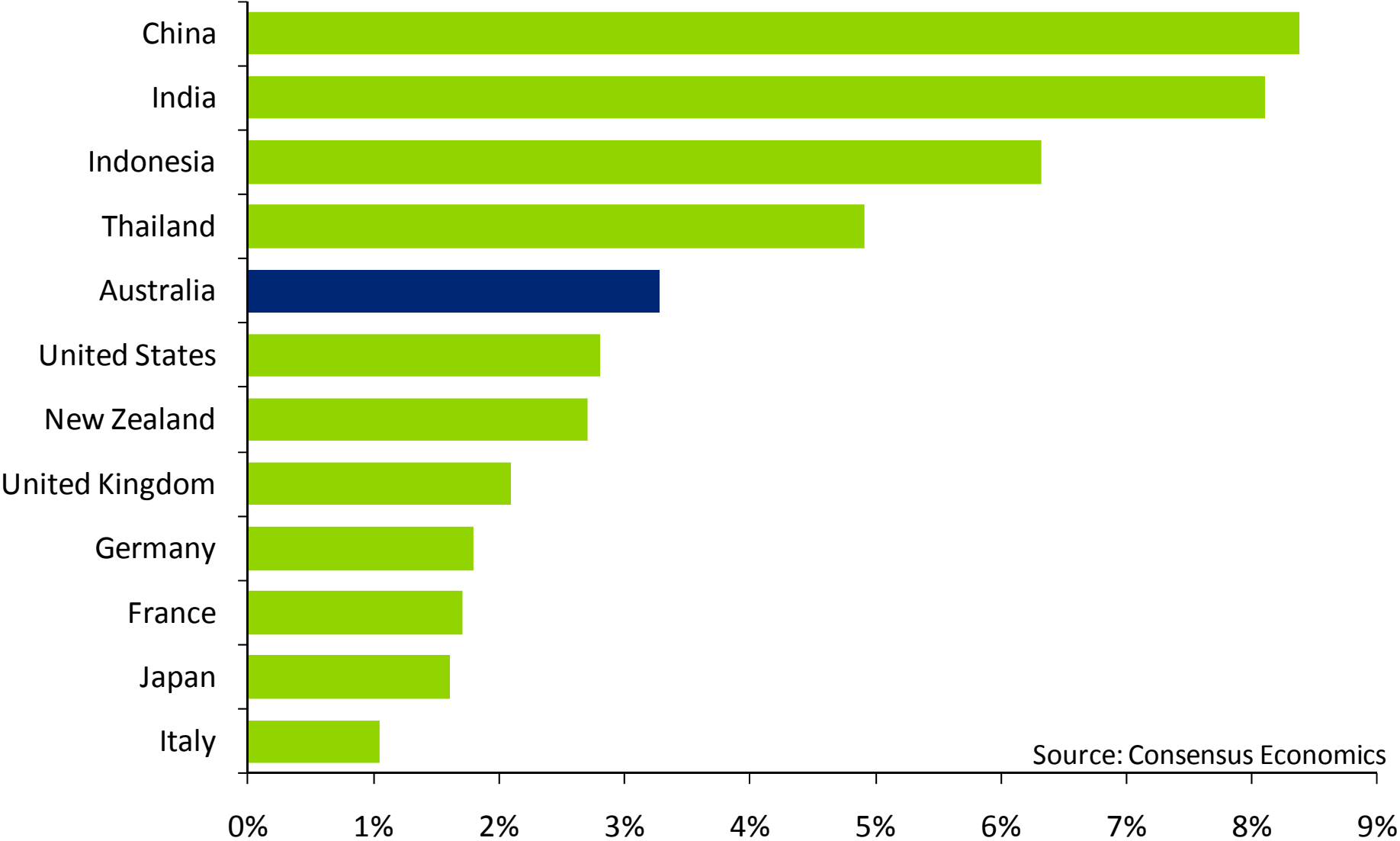
— Agricultural sector

— Non-agricultural sector



Longer term growth outlooks differ by nation

Projected average annual GDP growth 2010 - 2020

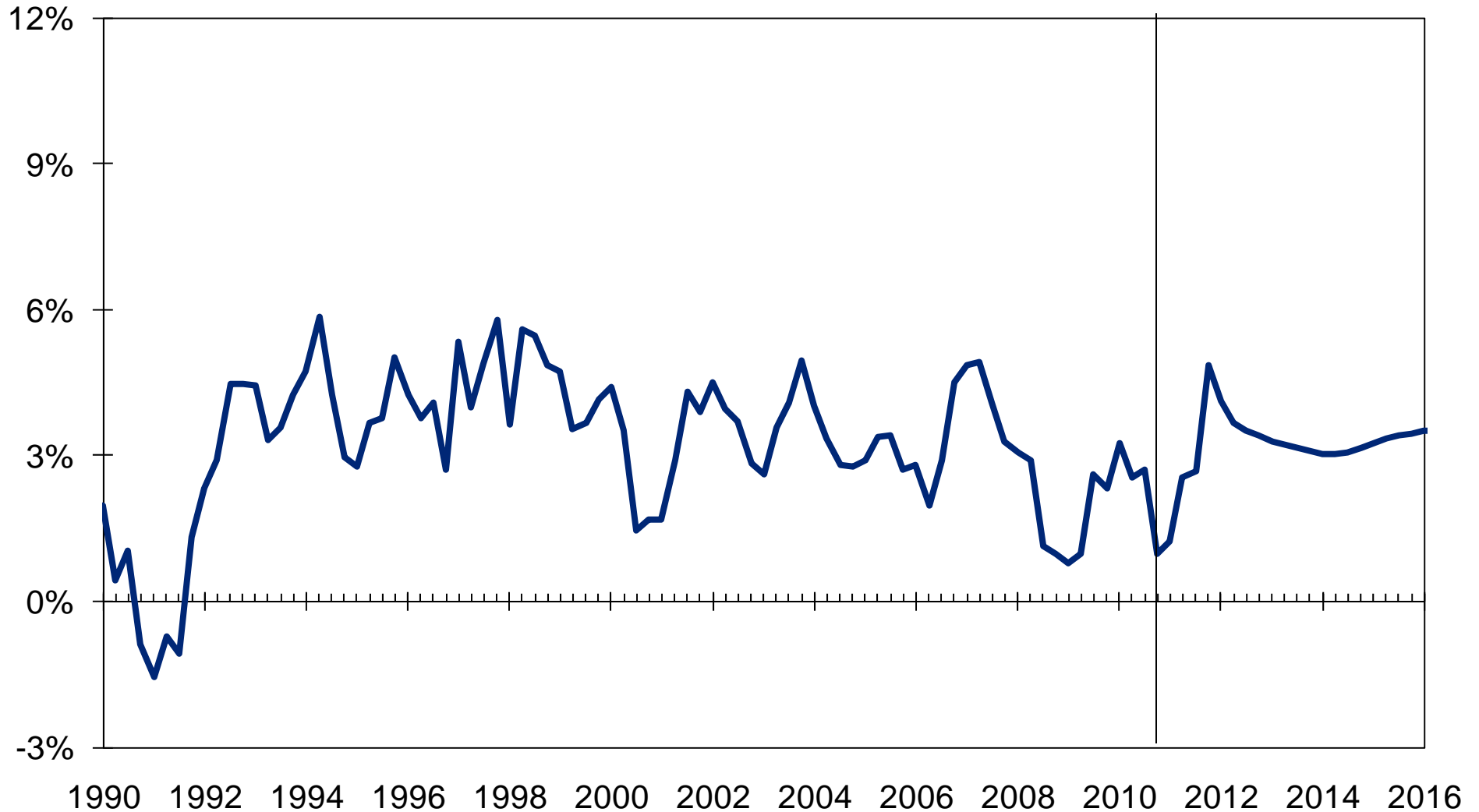


Source: Consensus Economics



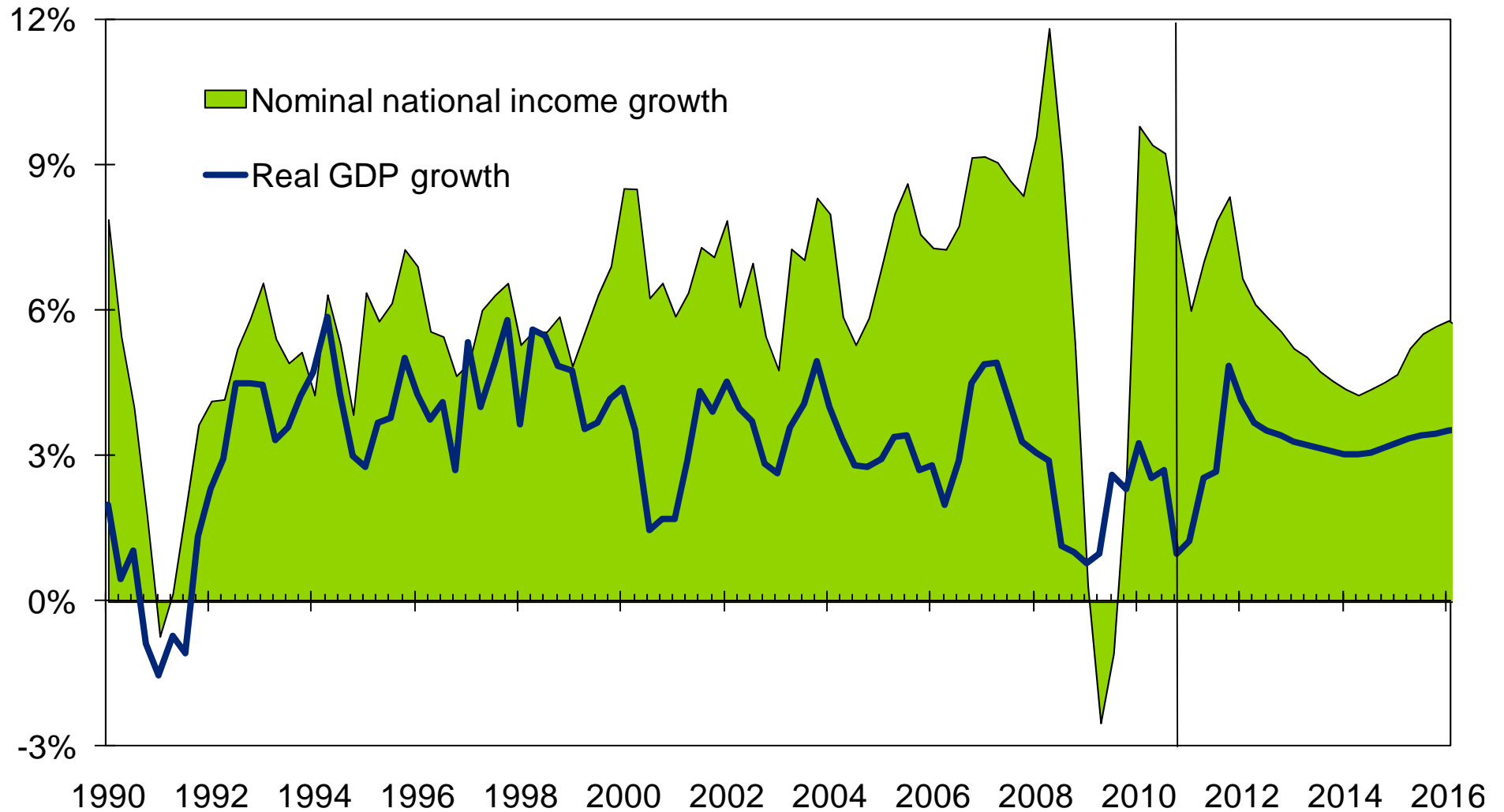
Australia's growth recovery will continue

Real GDP growth

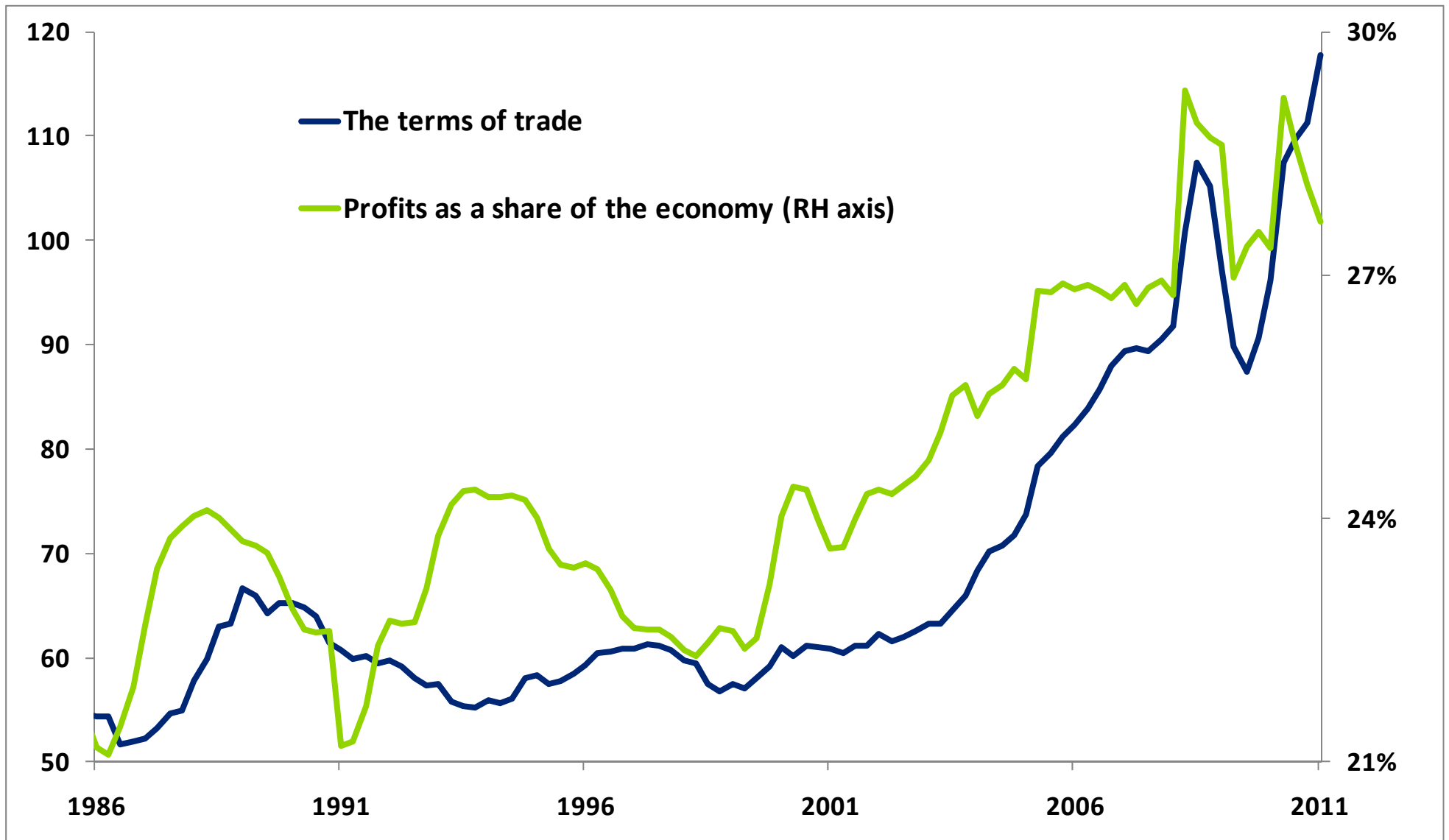


With China's boost to our income vital

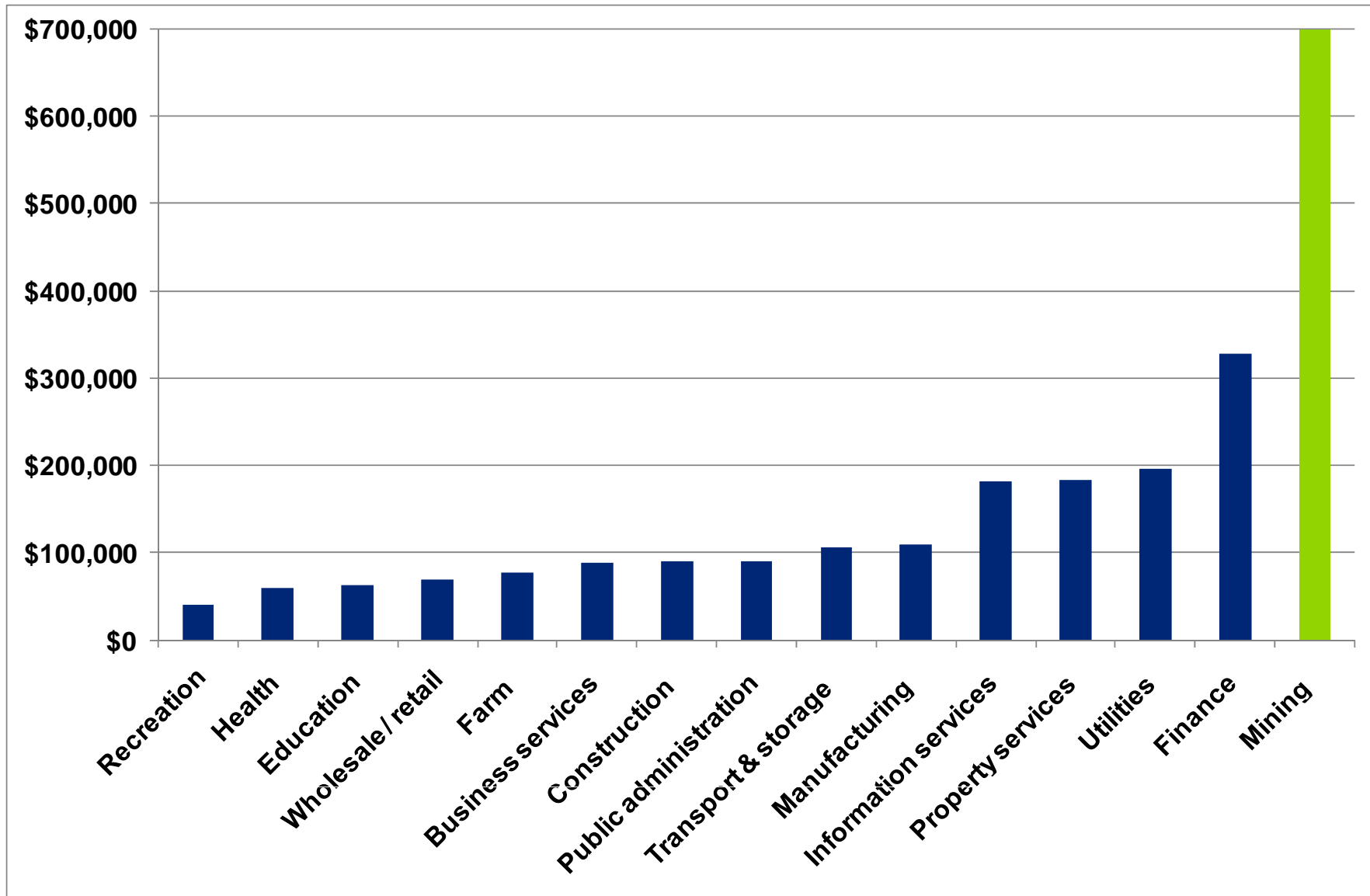
Nominal and real growth



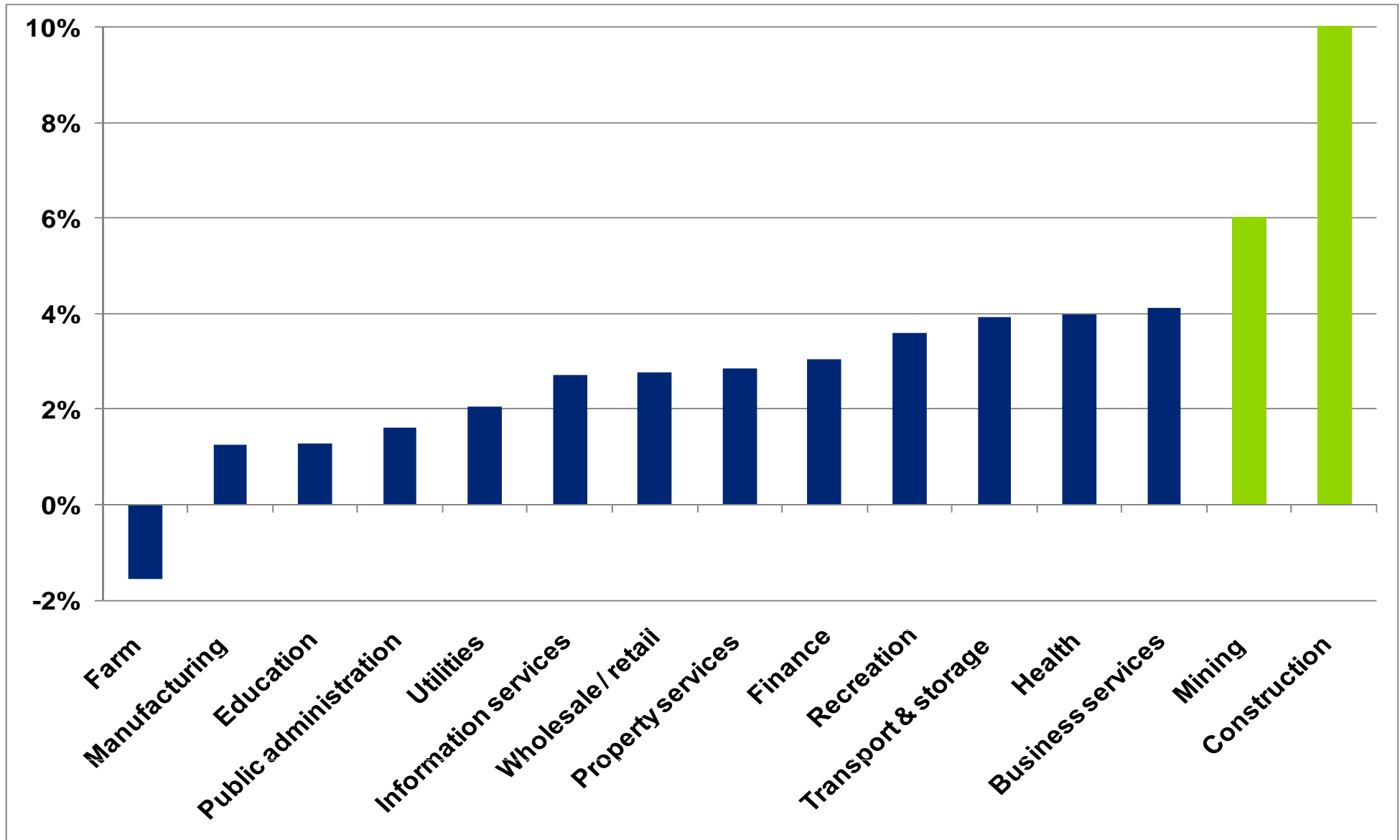
World payments drive Australian profits, and hence company tax revenues



So ... Chasing the Dragon: Output per worker in 2009-10



Sectoral growth in 2011-12



Resource curse has hidden costs ...

1. **The Great Complacency (“she’ll be right mate”) ...**
2. **... hurts the quality of policymaking, and leads to interest groups adopting a Cargo Cult mentality.**
3. **Volatility of growth rises, real growth stagnates ...**
4. **... while persistent strength in the currency (and temporary strength in interest rates) undermines non-resource exporters and those who have to compete against imports.**



Will reform advance in the next few years?

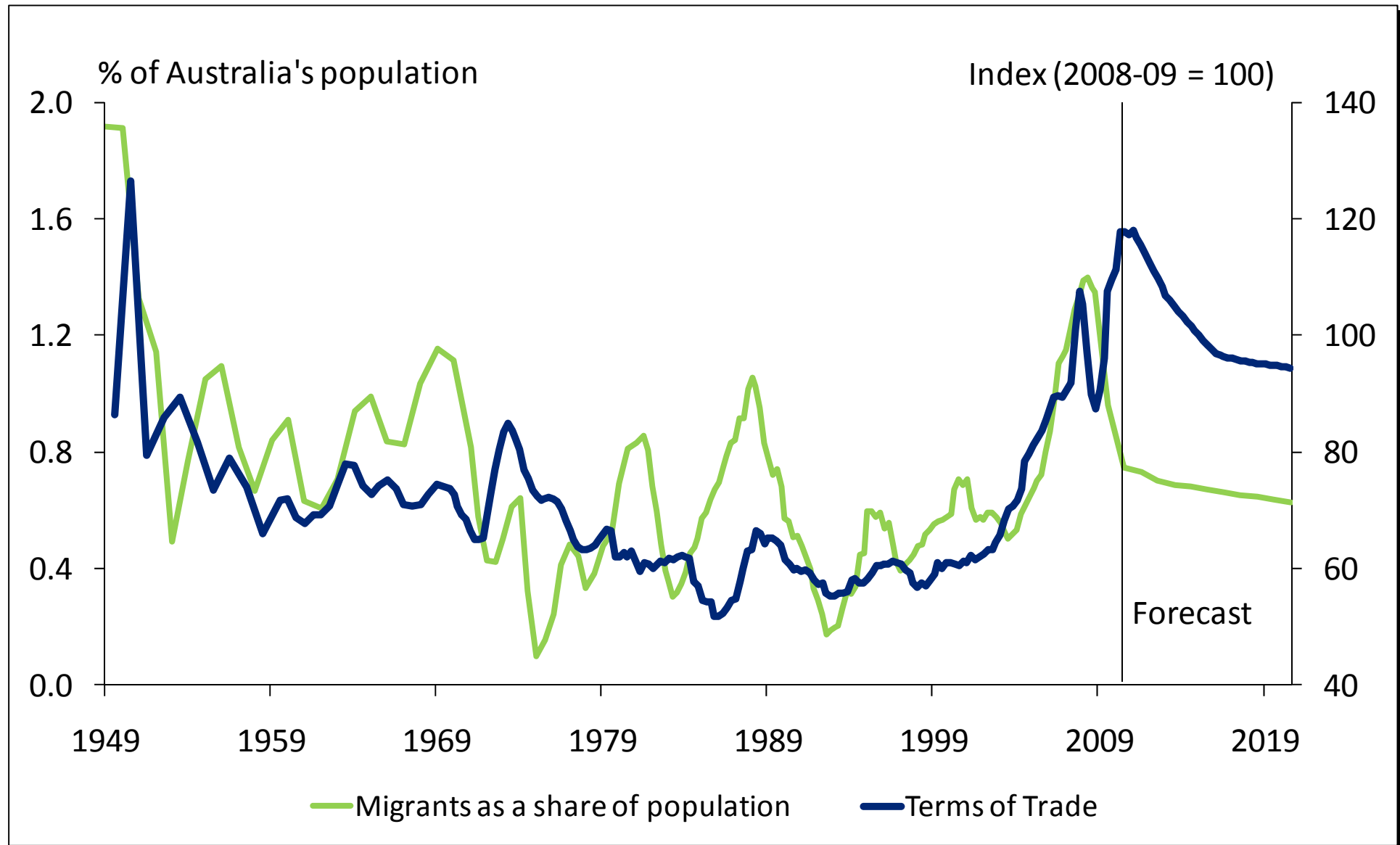
- Past reforms were easier than those we now need to chase. You can only float the \$A or bring in the GST once. To get the same boost to productivity would require a massive overhaul of Federal/State relations.
- That is partly why leadership has been lacking – why further reforms on productivity drivers have recently proved beyond even the ability of governments with large majorities. **And if we've failed to achieve further reforms while we had governments with big majorities, how will we go in addressing Australia's productivity challenge now that we have a minority government?**

What is right versus what is popular

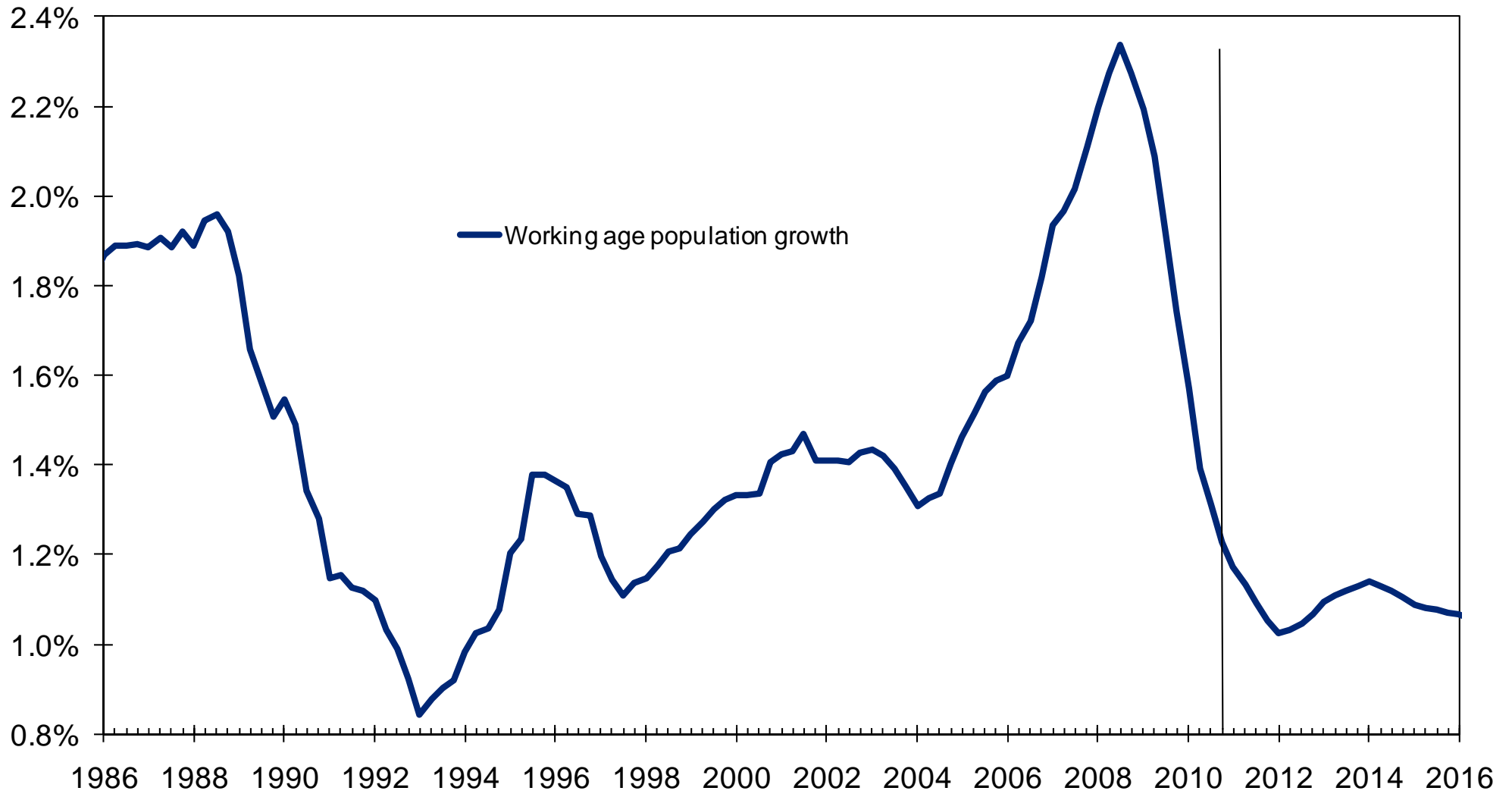
- There is a key equation in politics – sometimes you support the popular thing rather than the right thing because you need to bank some political capital for the future. And at other times you are willing to spend some of that political capital to fight for what you believe is right even when that is not popular.
- But hung parliaments mean increased populism. Both sides are always on a knife edge – they have to keep public opinion on their side to vie for power.
- That means they are more regularly likely to go for what is popular rather than what is right.



We are breaking 'the migration equation'

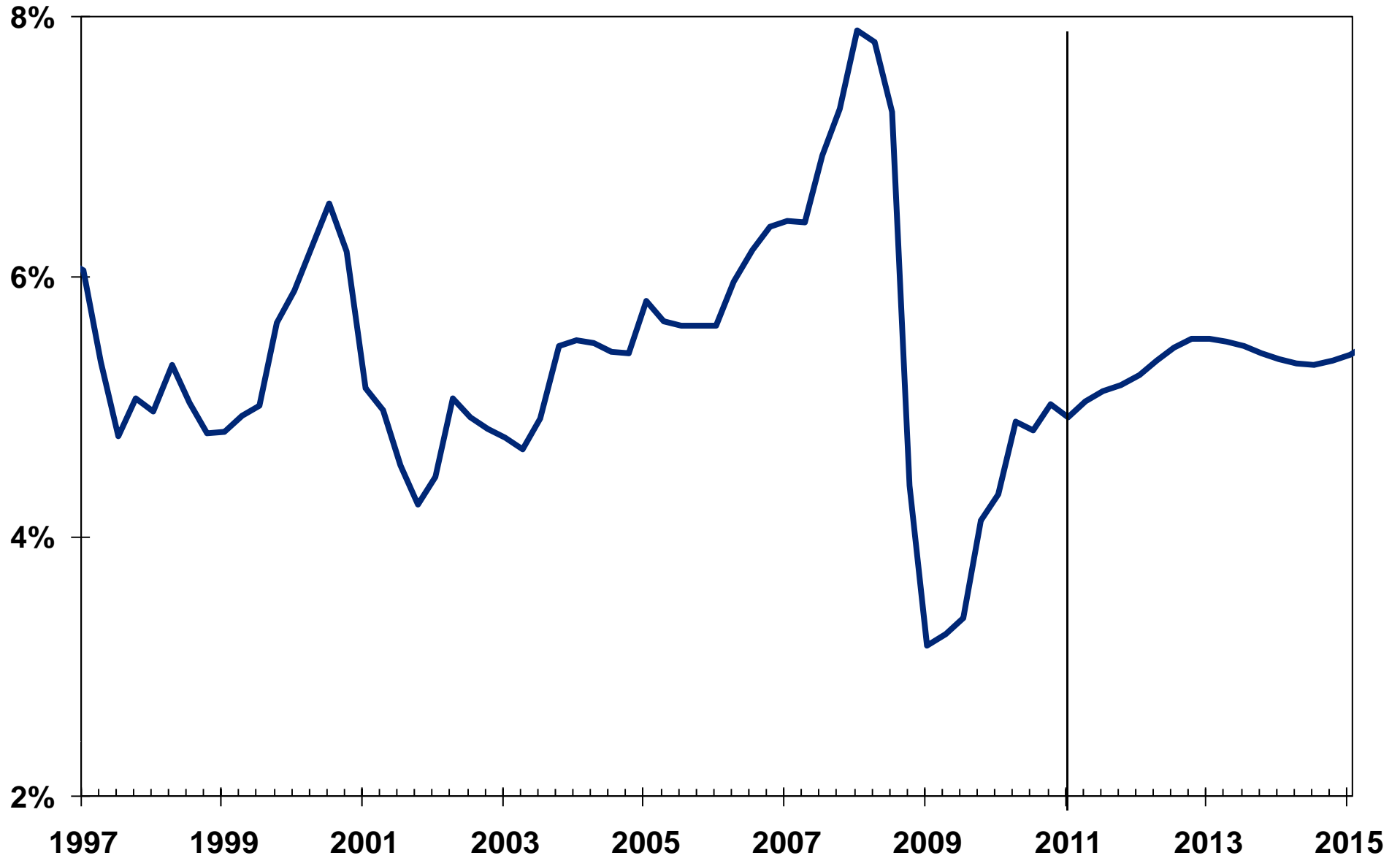


Especially as retirement accelerates

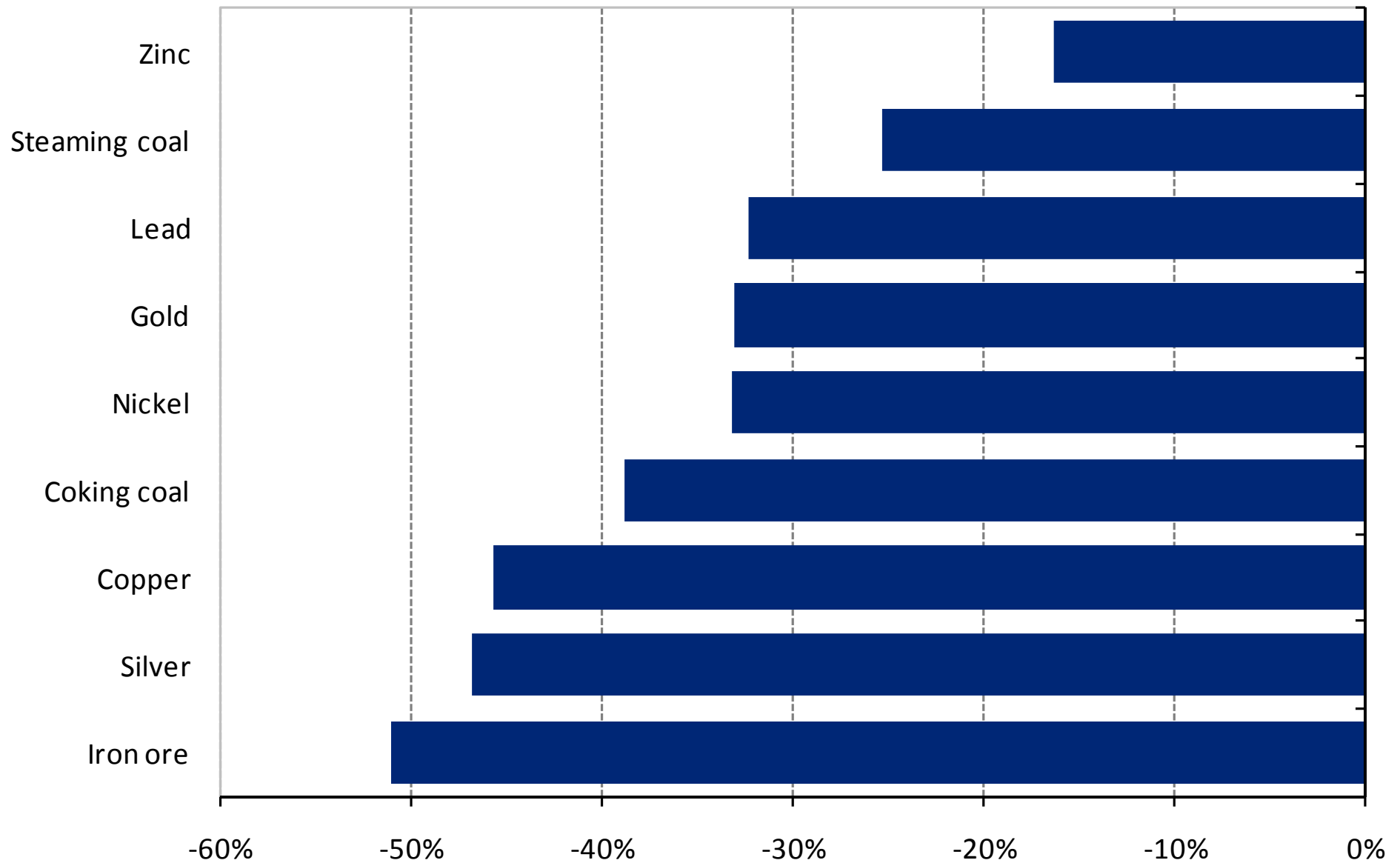


Which will help to pump up interest rates

90 day bank bill rates



And consensus sees long run price falls



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