



Two speeds, two worlds: global and domestic economic challenges for Australia

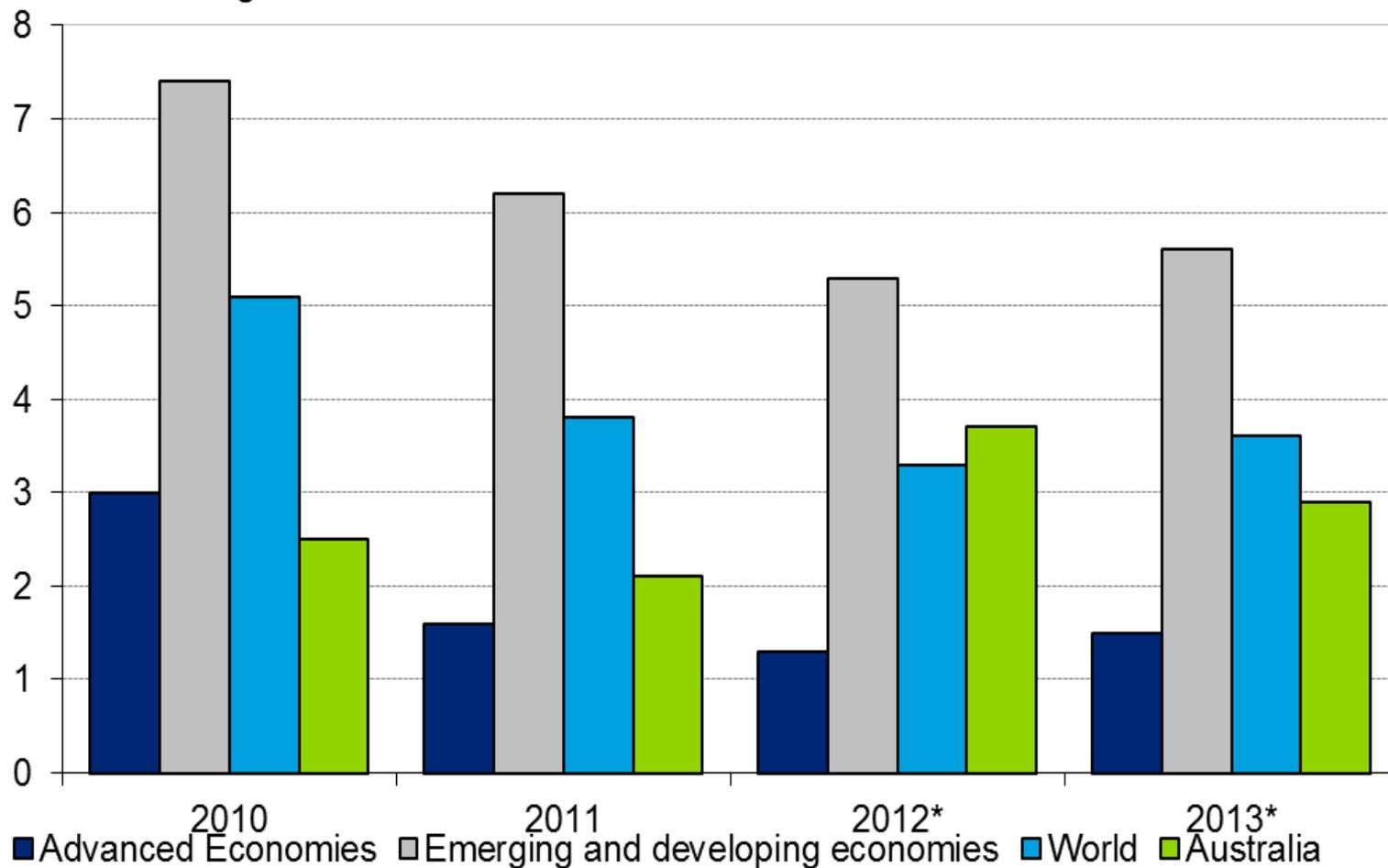
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Deloitte Access Economics

1st November 2012

Global economic growth

Annual % change in GDP



Source: IMF World Economic Outlook October 2012; Deloitte Access Economics

Eurozone

Difficult to see an early resolution of the European debt crisis

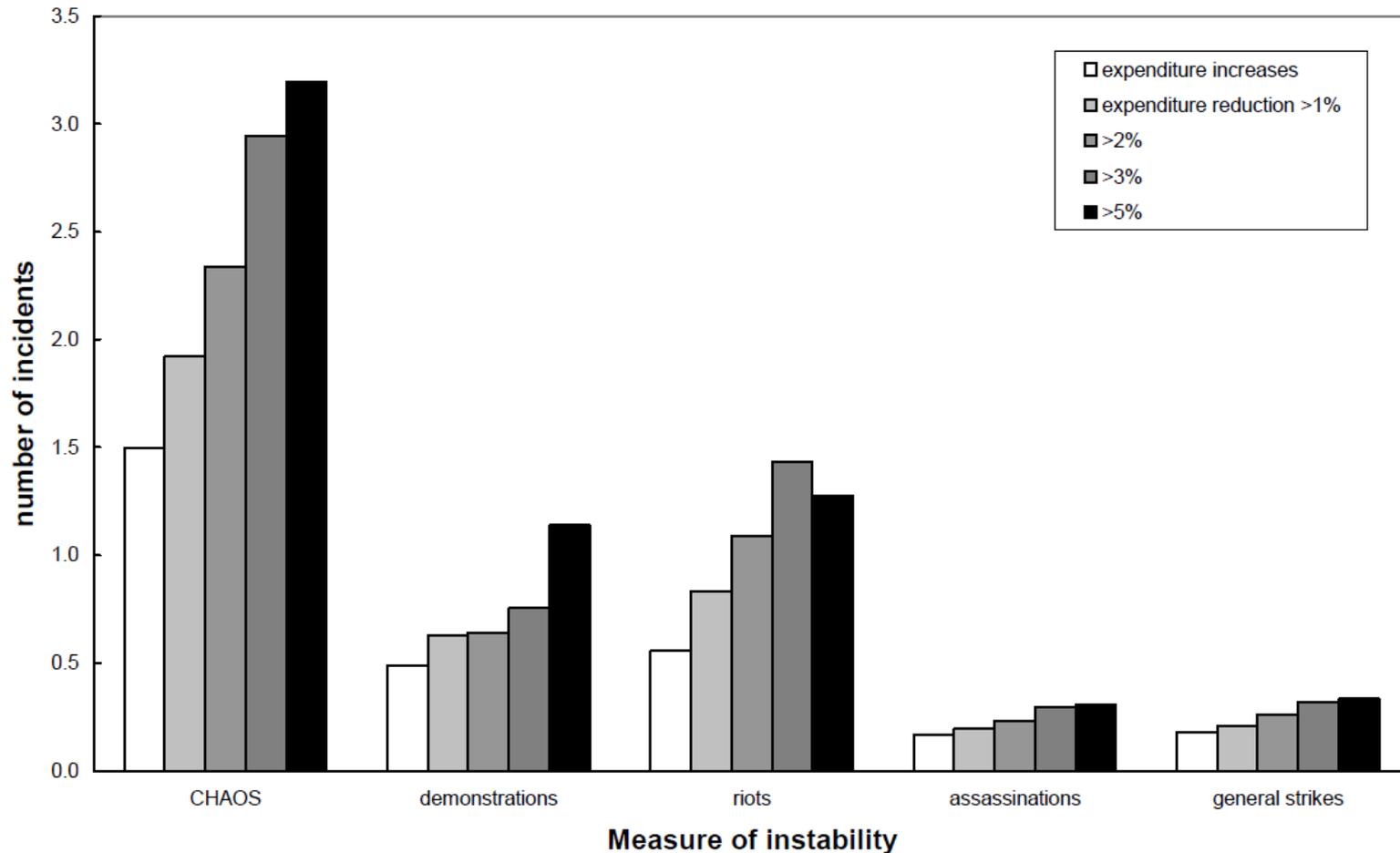
- fiscal problems are symptoms of **fundamental structural issues**
 - Eurozone lacks flexibility to adjust when differential pressures emerge
 - a single currency **without fiscal union** is inherently unstable

Uncoordinated, **front-loaded** fiscal adjustment has **dragged** on growth and employment

Possible futures include:

- a lengthy recession as economies re-balance & reform
- some mixture of **default**, debt re-structure and inflation
- a partial break-up of the EU – *least likely*

Austerity and social unrest in Europe, 1919-2009



Source: *Austerity and Anarchy: Budget Cuts and Social Unrest in Europe, 1919-2008*, Ponticelli and Voth, *International Macroeconomics and Economic History Initiative*, CEPR, December 2011.

The China story

Concerns about China have **intensified**:

- industrial production and electricity output are **falling**
- **export growth** is slowing
- capacity utilisation has dropped

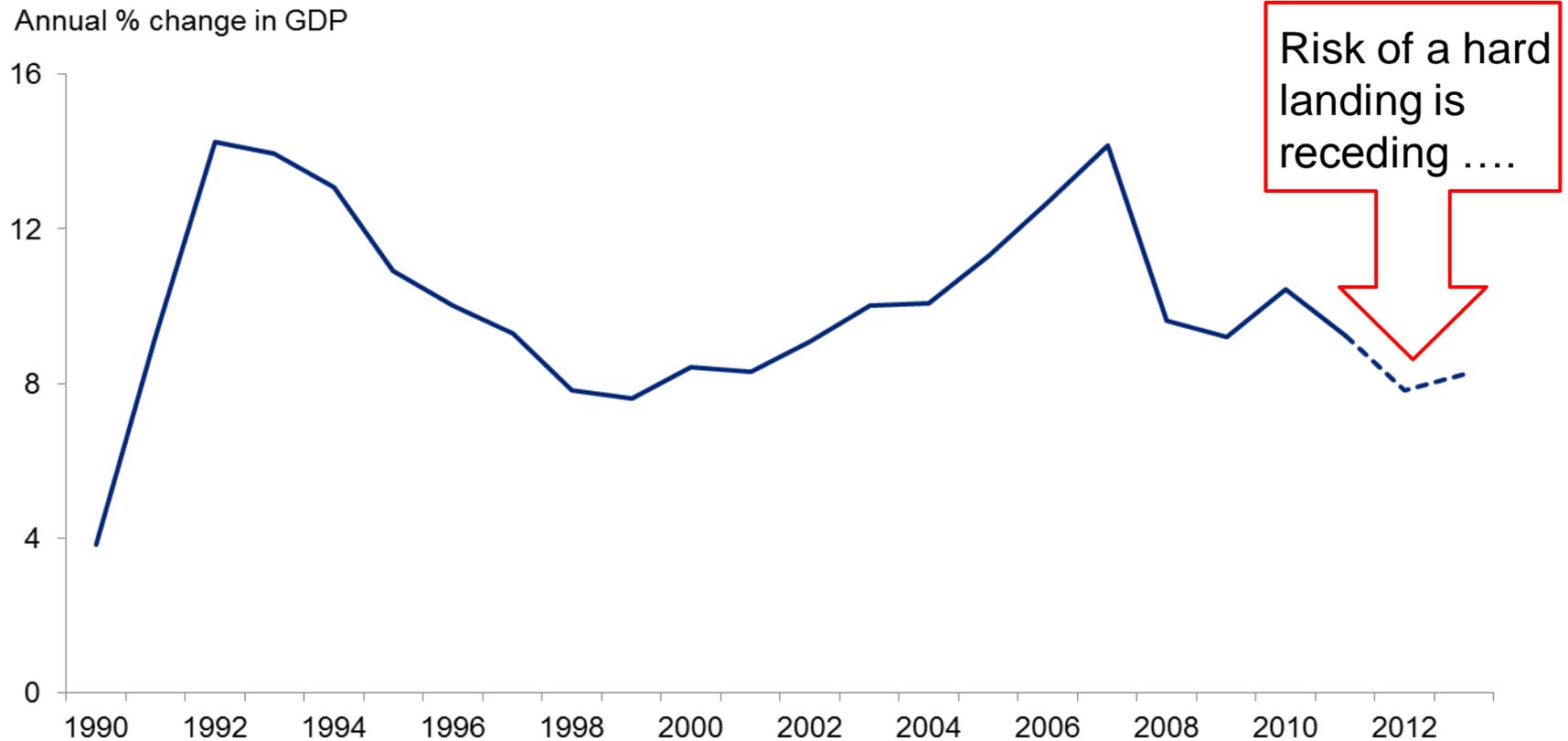
Chinese economy will continue to expand **well beyond 2012** *but*

- growth targets have been **lowered** from 8% to 7.5% for 2012

Still —

- banks are **encouraged to lend** and Chinese government has enacted moderate stimulus measures
- China has **ample buffers** (fiscal & monetary) and substantial internal momentum

China — GDP growth



Source: IMF World Economic Outlook October 2012

United States

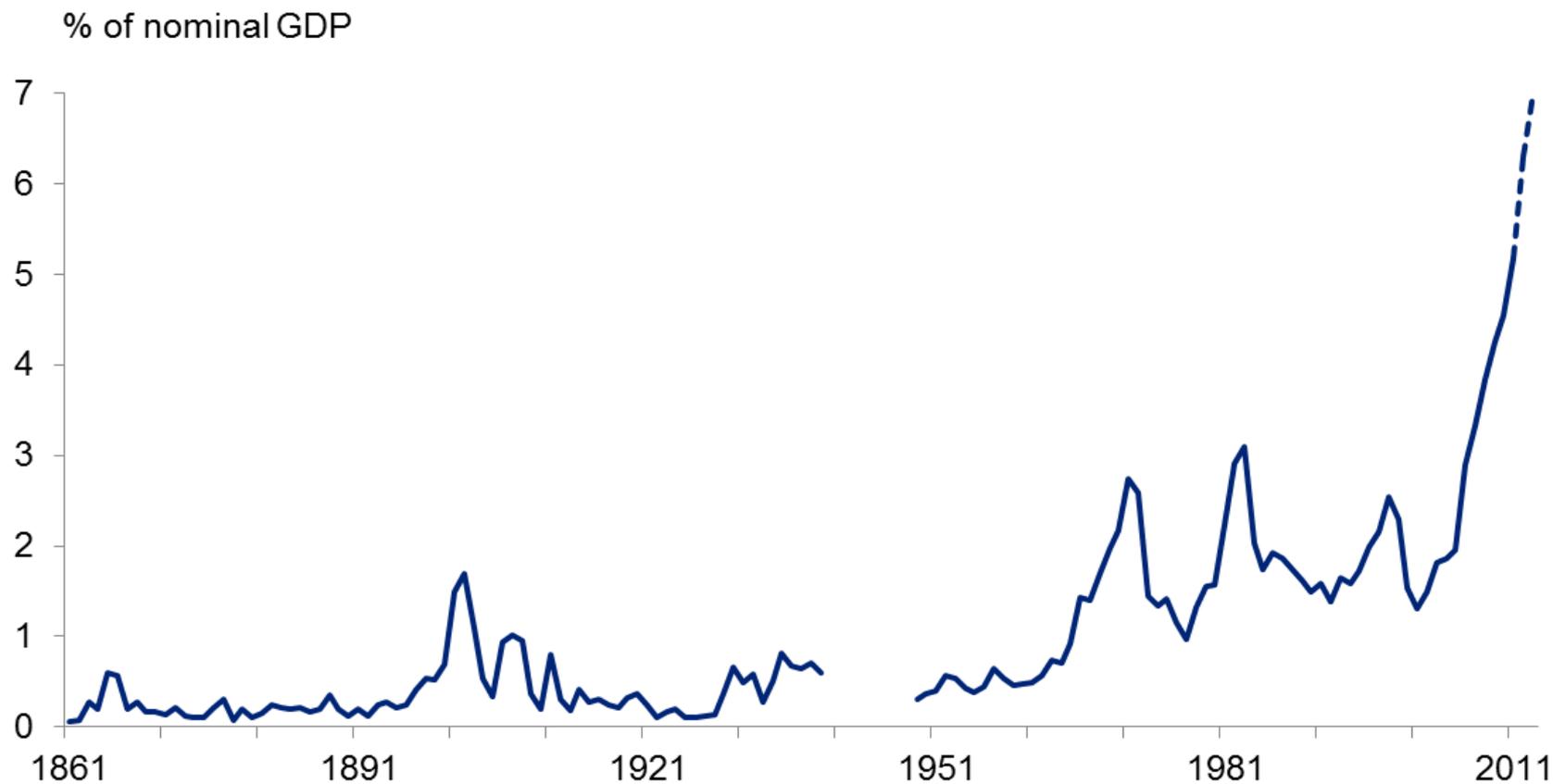
Signs of recovery —

- unemployment has edged below 8%
- house prices steady and housing market gaining momentum
- vehicle sales have picked up
- expectations that Q3 GDP will rise by 1.3%, with upside risk to Q4 expectations

But —

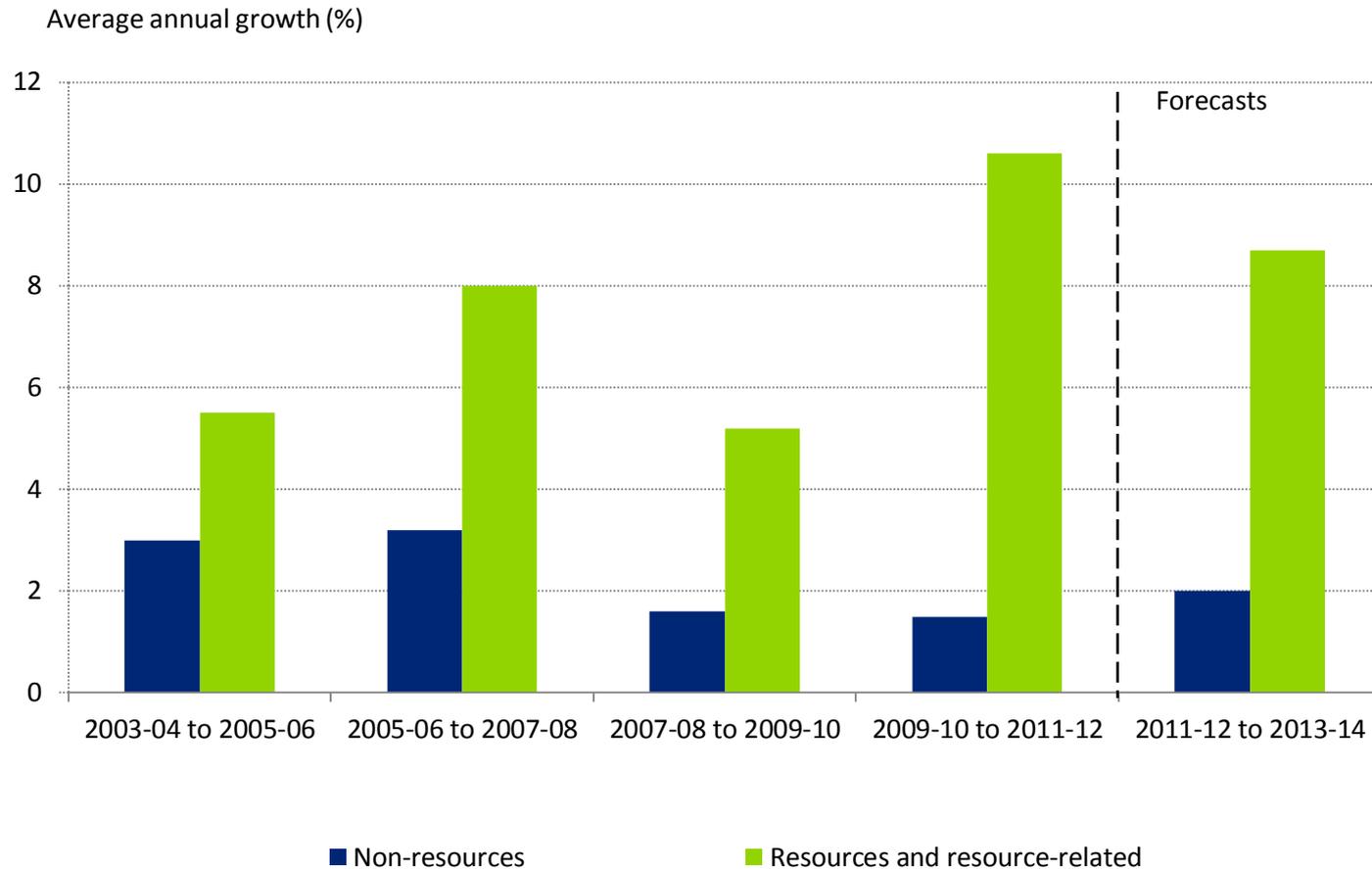
- “fiscal cliff” looms over the horizon—equivalent to fiscal tightening of 5% of GDP in 2013
- limited scope for compromise in what looks like a close-run election
- going over the “cliff” will slow growth in 2013—extent depends on confidence effects

Unprecedented boom in mining investment



Source: RBA 1861-2009; Ed Shann (2011) *Maximising growth in a mining boom*, 2009-2014

Australia's two-speed economy



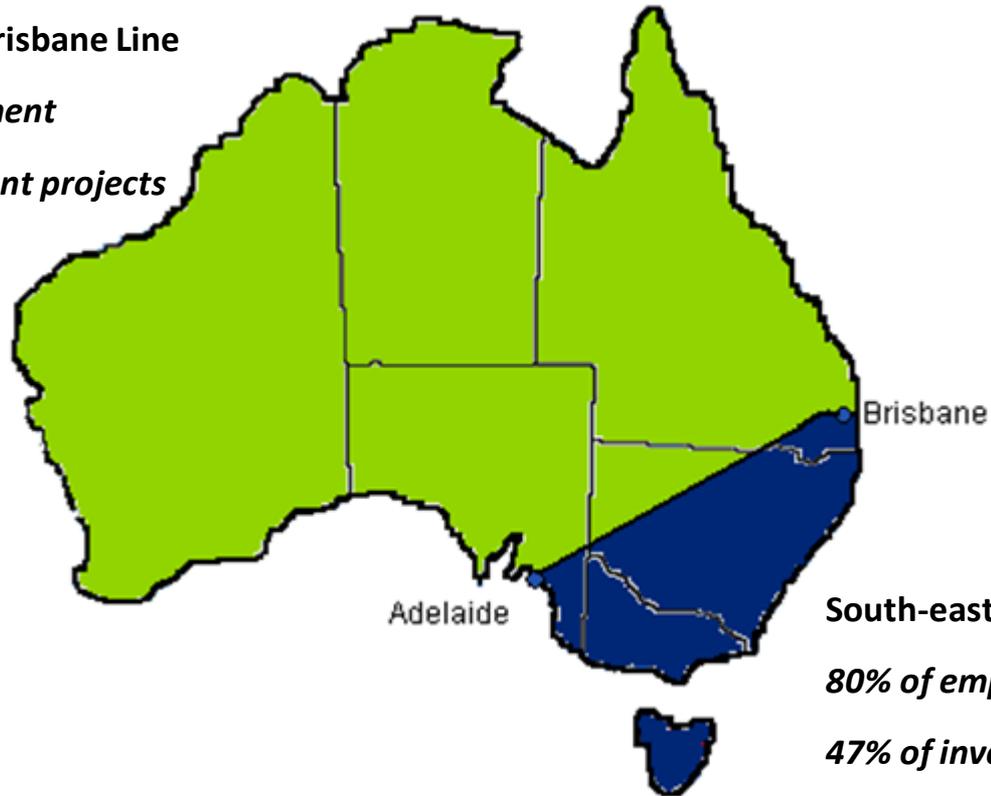
Source: Budget Statement No 2 of Budget Paper No 1

The 'Brisbane Line'

North-west of Brisbane Line

20% of employment

53% of investment projects



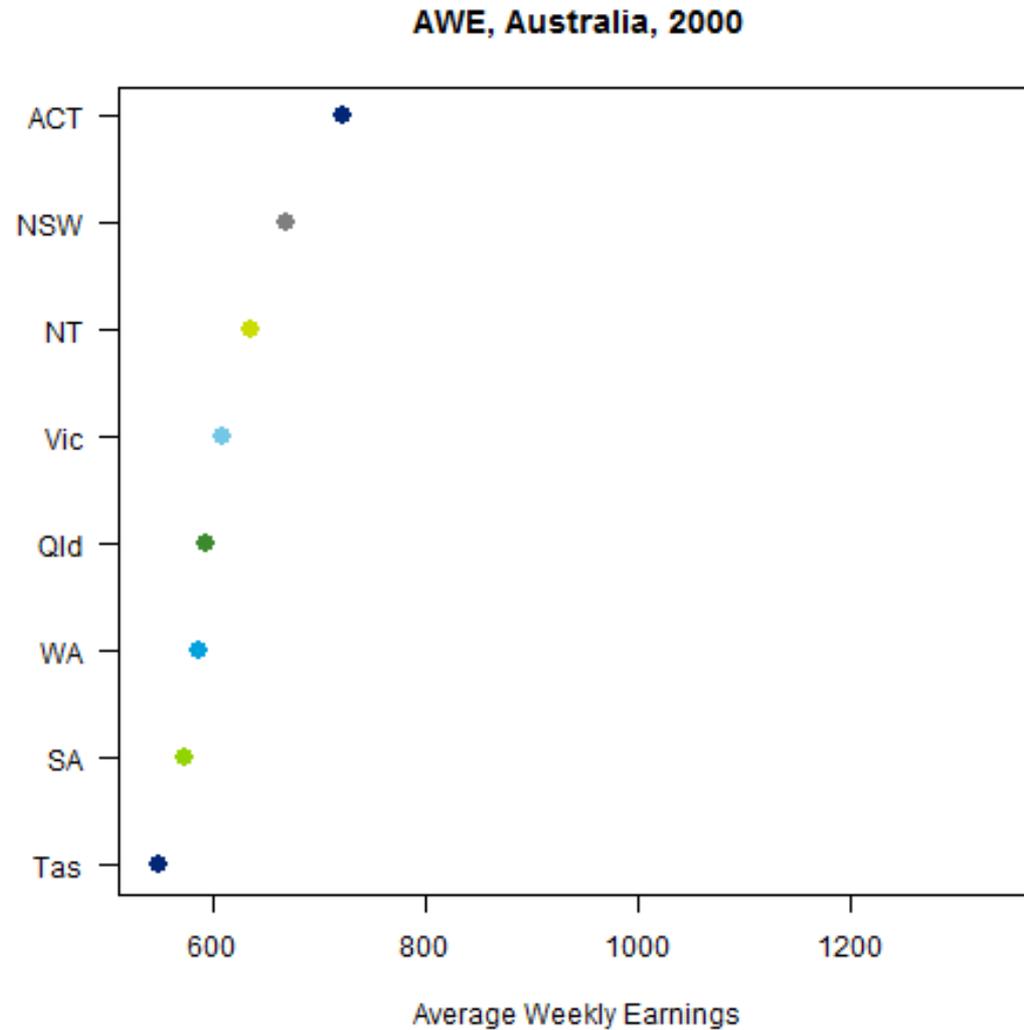
South-east of Brisbane Line:

80% of employment

47% of investment projects

Source: ABS 6291.0.55.001, Deloitte Access Economics' Investment Monitor

Australia's two speed economy — by State



Source: ABS

The end of the mining boom?

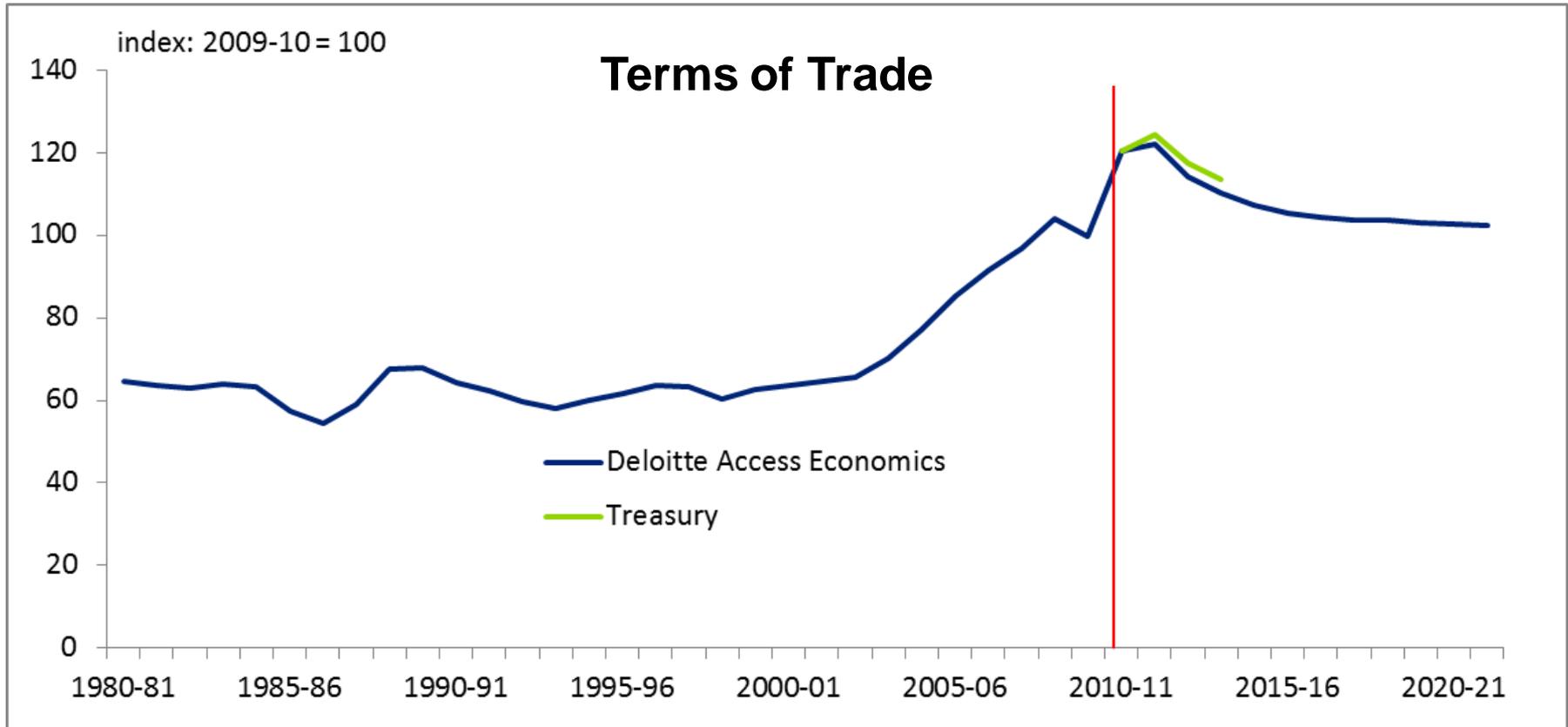
Which **phase** of the boom?

- terms of trade surge (Phase 1) has **probably already peaked**
 - maturing demand for commodities and more supply coming online
- **investment boom** (Phase 2) will probably peak next year
- boom in export volumes (Phase 3) is **still gathering pace**—especially in oil and gas—and unlikely to peak for years

Implies:

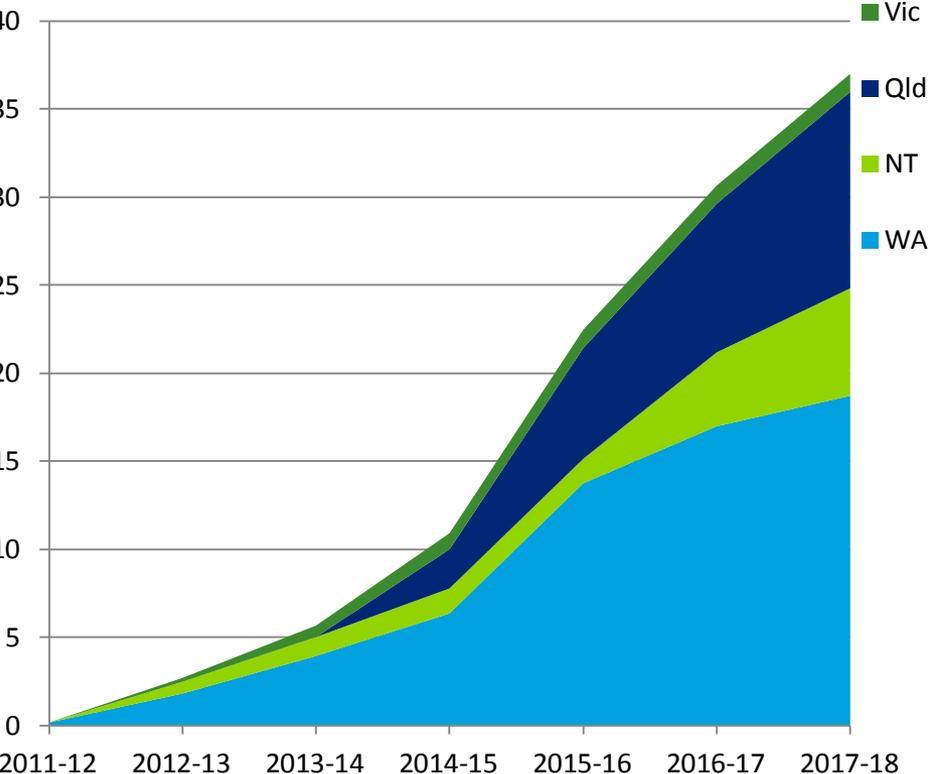
- Two-speed pressures **will ease**—especially if \$A follows ToT down
 - mining States will come back to the pack but probably not all the way
- falling export prices will **lower growth** in national income
- lower income growth will continue to **hit budget revenue** forecasts

What goes up ...

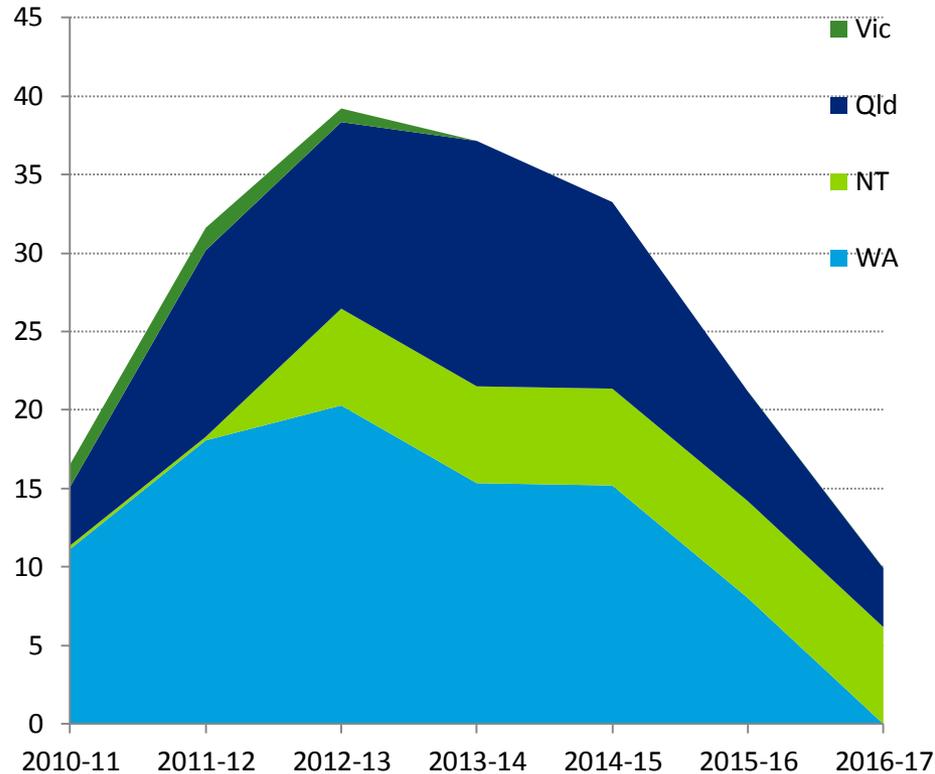


Investment peaks as exports grow in LNG sector

Output from new sites (\$ Billions)

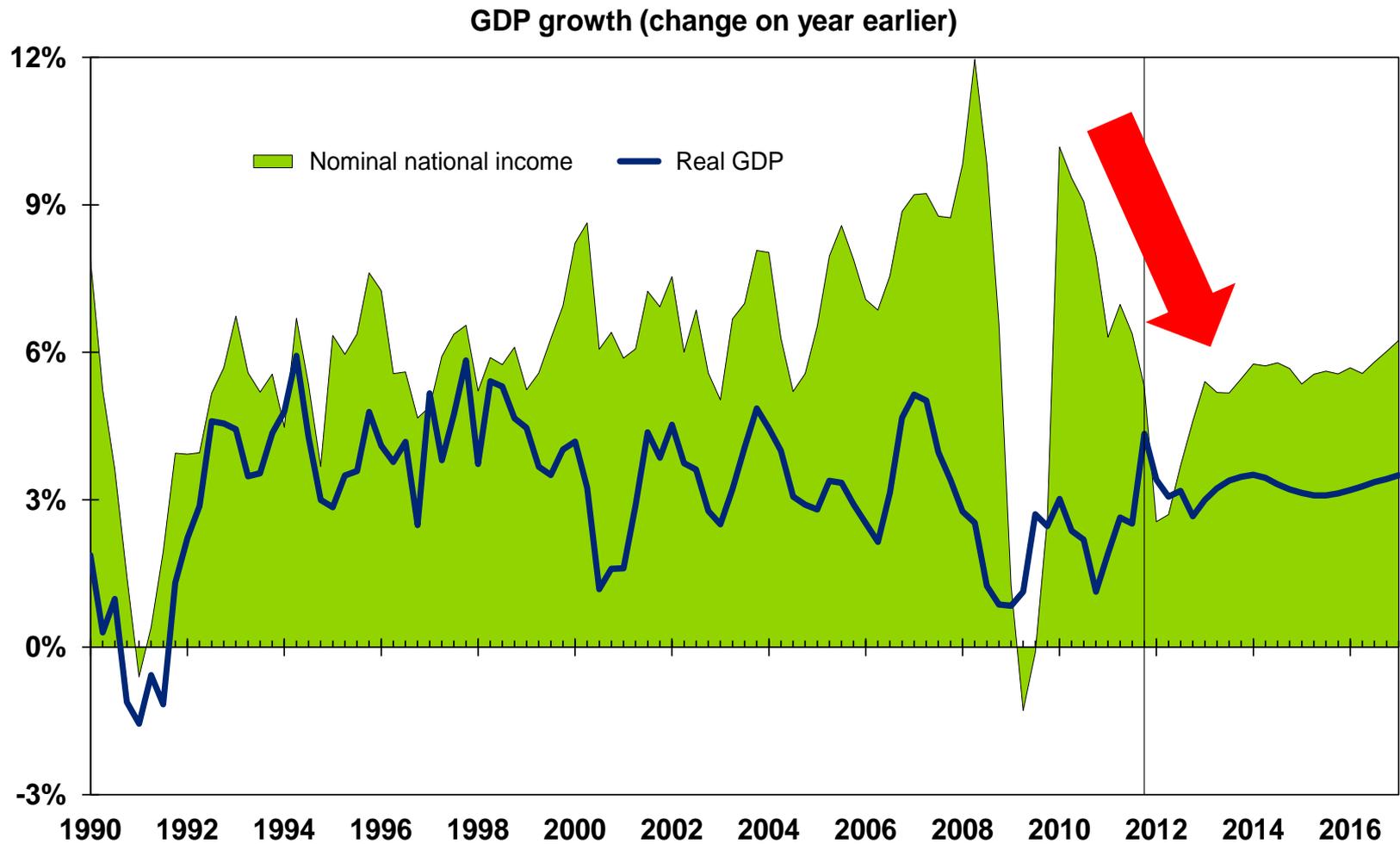


CAPEX total (\$ Billions)



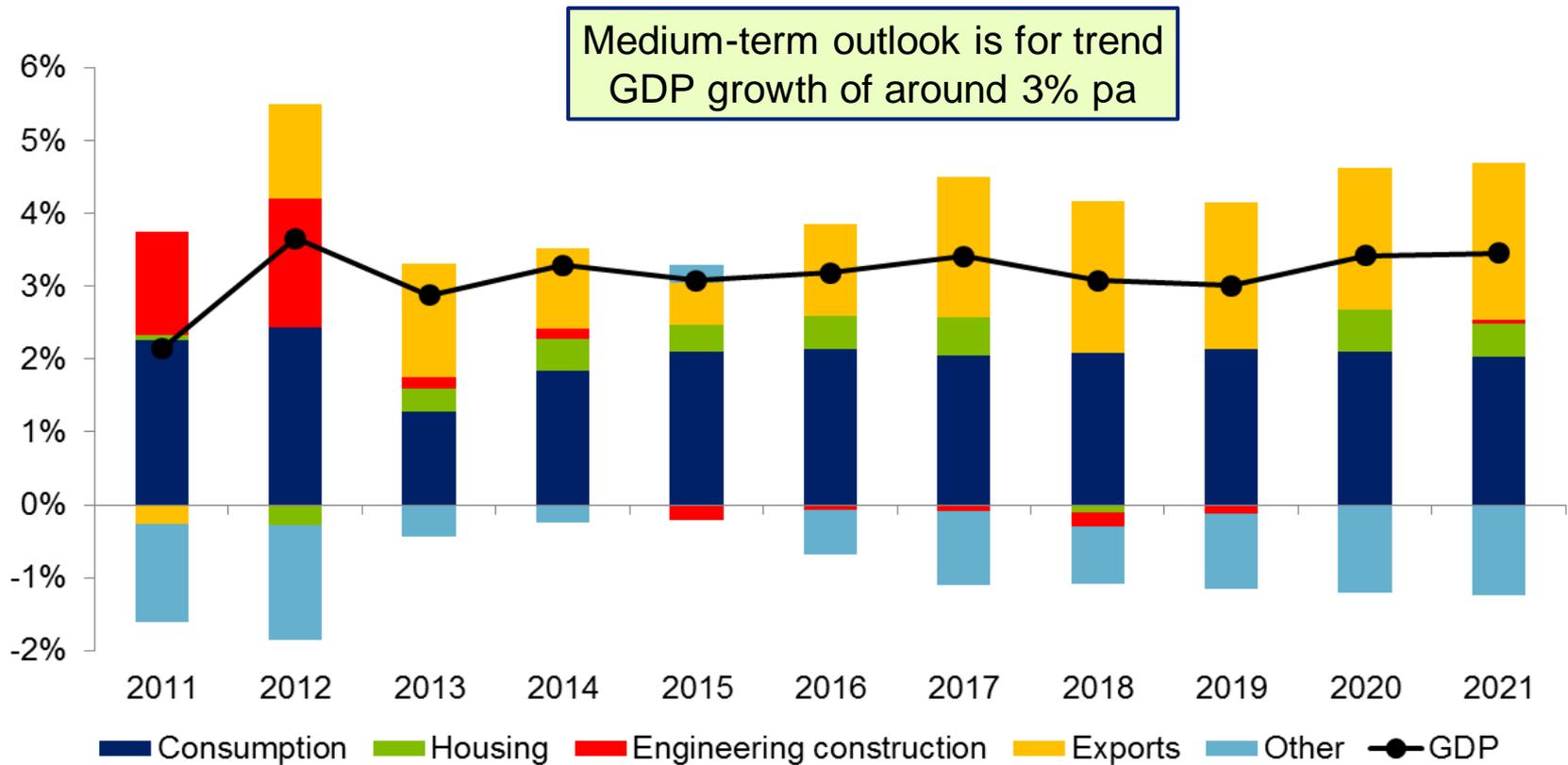
Source: DAE and Bureau of Resource and Energy Economics

Falling back to Earth



Source: ABS data and Deloitte Access Economics forecasts

Re-balancing growth



Source: Deloitte Access Economics



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