



# ACT BUDGET 2009-10<sup>1</sup>

## Economic and labour market outlook

### Overview

State Final Demand in the ACT is forecast to recover somewhat in 2009-10 following the weakness of 2008-09. However, weakness in the ACT economy is expected to continue to some extent in 2009-10 in response to the global financial crisis with growth forecast to remain below the long-term trend. The 2009-10 economic picture is likely to be primarily influenced by lower interest rates and the relative job security enjoyed by ACT residents as well as the financial crisis and its impact on confidence, asset prices and credit availability.

Australian Government consumption expenditure has long been a significant contributor to the ACT's economic growth. However, with the ongoing effects of last year's tight Australian Government budget, including the increased efficiency dividend limiting departmental budgets, the contribution of government consumption to the ACT's growth in 2009-10 is expected to be relatively weak. Changes in Australian Government employment are, however, still expected to contribute positively to overall employment growth in the ACT. Although the ACT unemployment rate is expected to rise as a lagged response to the moderating economy in 2008-09, it is still expected to remain relatively low compared with unemployment rates across Australia.

The economic forecasts underpinning the 2009-10 Budget are summarised below.

**Economic Forecasts**  
Year average percentage change

	2007-08 Actual	2008-09 Forecast	2009-10 Forecast
<b>ACT</b>			
Gross State Product	2.5	1.0	0.5
State Final Demand	2.2	0.75	2.0
Employment	1.0	0.75	0.5
Population	1.3	1.25	1.0
Consumer Price Index	3.6	3.5	1.75
<b>Australia</b>			
Gross Domestic Product	3.7	1.0	0.75

<sup>1</sup> Unless indicated otherwise, all material, including forecasts, in this summary are as expressed in the ACT Budget papers and their reproduction here does not constitute any endorsement of them by DEEWR.

The ACT is a particularly interest rate sensitive jurisdiction. Part of the slowdown in 2008-09 was a response to the high interest rate environment in Australia until late 2008. As interest rates were lowered, the typical rebound in consumption and investment has been dampened due to the continued effects of the global financial crisis on household wealth and consumer confidence. With a likely stabilisation in household wealth as 2009 progresses, the historically low interest rates should reinvigorate confidence within the ACT economy.

Gross State Product (GSP), the Australian Bureau of Statistics' headline measure of the ACT economy, is forecast to grow at 0.5 per cent in 2009-10. On the expenditure side, the growth in GSP will be primarily supported by private consumption. However, as a large proportion of household consumption items are imported into the ACT, a growing household consumption base, all else equal, will generally not be reflected in GSP growth to the same extent as it will be in State Final Demand.

State Final Demand (SFD) is forecast to grow at 2.0 per cent in 2009-10, an increase from the expected growth in 2008-09 of 0.75 per cent, but still below the long-term growth rate. The forecast growth in 2009-10 mainly reflects the contribution from the growth in household consumption. The main reason the forecast for SFD is below trend in 2009-10 is the relatively low growth in Australian Government outlays in the ACT.

### **Labour market**

Further moderation in employment growth is forecast for 2009-10 due to the lagged impact of moderating activity in 2008-09. Trend unemployment is expected to increase from the historical lows experienced in late 2008, but to remain below the long-term average for the ACT and to be comparatively much better than other jurisdictions.

The global economic downturn has inevitably impacted on the Australian labour market, and thus the ACT labour market. However, rather than immediately shedding staff, as has been common in past economic slowdowns, some employers may be more cautious in relation to downsizing workforces. In response to difficulties many businesses had in securing skilled workers in the first place, some businesses may attempt to cope with the downturn by reducing overtime or working hours, with the expectation that a recovery is not far away.

Employment growth is forecast to moderate from 0.75 per cent in 2008-09, to 0.5 per cent in 2009-10, below the long-term average rate of 1.75 per cent. However, the significantly lower interest rate environment should begin to support growth in employment towards the latter half of 2009-10.

The ACT unemployment rate is at historically low levels. Over the past 15 years the unemployment rate in the ACT has gradually trended down, consistent with the pattern recorded across Australia. However, over the three months to March 2009, the unemployment rate in the ACT has edged slightly higher, while the national rate has rapidly increased. This is possibly due to major job losses across Australia occurring in industries in which the ACT has little or no exposure, namely the finance, mining and manufacturing industries; and employers in the ACT being more reluctant to shed staff having been through a period of acute skills shortages.

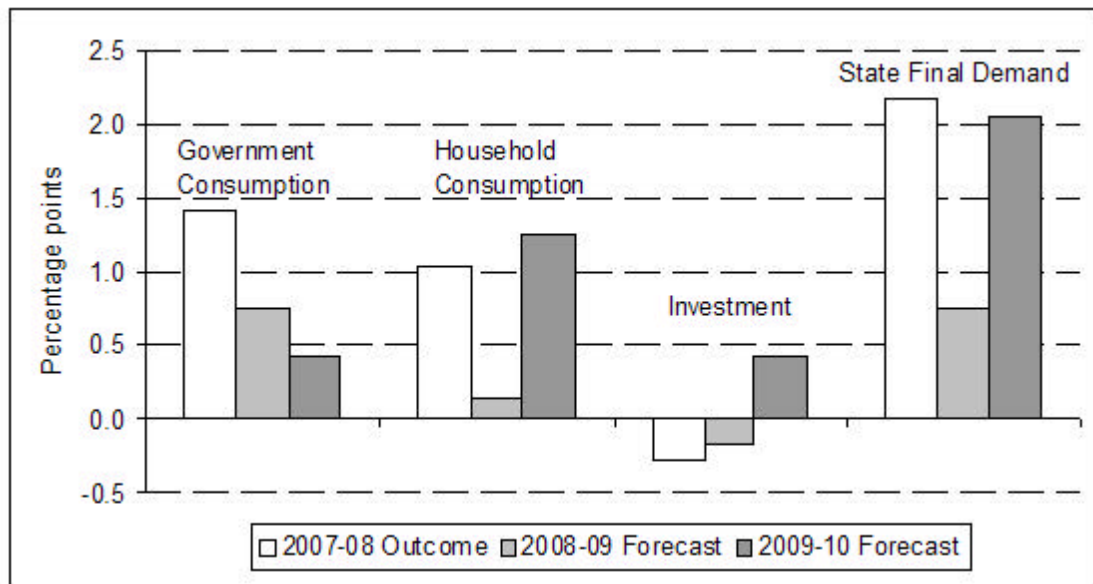
Regardless, the ACT unemployment rate is estimated to increase from the current rate of 2.8 per cent to around 3 per cent at the end of June 2009 and further to 3.5 per cent at the end of June 2010. This estimate is consistent with the forecasts for economic activity over the period and is based on the assumption of a constant labour force participation rate. The ACT unemployment rate is expected to remain below its long-term trend as well as the national rate.

### Components of economic activity

*Government consumption expenditure*, particularly that of the Australian Government, is a key determinant of economic activity in the ACT. The Australian Government's 2008-09 Budget (and subsequent updates) forecast very moderate government expenditure growth in 2008-09, including a significant efficiency dividend imposed on all agencies, and a further moderation in the growth of Australian Government outlays in 2009-10. Nonetheless, the weakness in Australian Government consumption is not expected to result in a net reduction in Australian Government employment in the ACT. A reallocation of resources between programs is the most likely outcome of efficiencies at the national level.

Growth in *household consumption expenditure* in the ACT is expected to improve in 2009-10 as significantly lower interest and inflation rates combine with relative job security in the ACT to restore consumer confidence and maintain strong disposable income growth. This follows an easing in retail sales over the last two years, initially due to the high levels of interest rates, and more recently due to a significant fall in consumer confidence and lower household wealth as a result of the global financial crisis.

**Contributions to Growth in ACT Final Demand**



*Investment* is forecast to rebound following negative growth in 2007-08 and 2008-09. Private investment is expected to grow in 2009-10 with increased dwelling investment offsetting an easing in non-dwelling construction. Partly offsetting the forecast rise in private investment is a small fall in public sector investment attributable to the Australian Government.

The outlook for ACT *dwelling investment* is for solid growth. Increased land supply has played an important role in meeting the demand for new dwelling investment. The Australian Government's temporary tripling of the First Home Owners Grant for the construction of new houses and the low interest rate environment are working to increase demand for new dwellings. Although the boost to the First Home Owners Grant expires on 30 June 2009, contracts signed up until this date will almost certainly lead to dwelling investment extending well into 2009-10. The low interest rate environment is likely to also restore confidence in the wider housing market which, along with increased land supply, should provide a healthy boost to dwelling construction for non-first home buyers.

*Non-dwelling construction* growth is expected to ease in 2009-10, although overall construction is expected to remain at high levels. Non-dwelling construction in 2009-10 will be underpinned by a number of large commercial developments. These include the Australian National University Exchange, Section 63, and new offices to house the Australian Security Intelligence Organisation and the Office of National Assessments, as well as the Australian Government Department of Environment and Water Resources.

*Public investment* is expected to remain at high levels in 2009-10 despite easing in 2008-09. The ACT Government investment in infrastructure will continue at a record high level. A significant amount of investment is also expected to flow to the ACT as part of the Australian Government's \$42 billion *Nation Building and Jobs Plan*. In 2009-10 alone, the ACT's share of Commonwealth Government investment expenditure resulting from the Plan is expected to be in the order of \$210 million.

*Population* growth in 2009-10 is expected to be 1.0 per cent, in line with the longer-run average. Natural increase and net interstate migration rates are forecast to make positive contributions to the population growth. In periods of economic downturn in the past, net interstate migration into the ACT has been relatively strong. These factors will nevertheless be partially offset by net overseas migration which is likely to be a negative contributor to growth, as a result of the proposed reductions in the skilled migration program.

Australia's inflation has been moderating in recent quarters in response to weaker global growth and domestic demand, as well as the associated impact on commodity prices and interest rates. Moderating wage pressures, as the national economy slows and unemployment rises, are likely to exert further downward pressure on inflation in 2009-10. *Consumer prices* in Canberra in 2009-10, as measured by the CPI, are forecast to rise by 1.75 per cent.

## Education, training and skills initiatives

Education, training and skills initiatives in the Budget include:

- Employing 70 additional staff members in ACT schools to reduce class sizes to an average of 21 across all years in primary and high schools, and to an average of 19 in colleges (\$22.7 million over four years). Capital funding of \$6 million has also been provided to accommodate the additional class rooms.
- Providing specialist literacy and numeracy teachers to assist students at risk of not achieving national benchmarks (\$6.4 million over four years). This is in addition to the \$1.9 million over four years flowing into the ACT from the Australian Government for further literacy and numeracy programs.
- Eight additional support staff for students with English as a Second Language (\$3.1 million over four years).
- Ten scholarships for students in Years 11 and 12 and three university scholarships for Indigenous persons to study teaching (\$691,000 over four years).
- A new high school, accommodating 800 students, in Harrison (\$44 million).
- A new performing arts centre at the Canberra College Woden (\$7.6 million over three years).
- Through the COAG Productivity Places Program, the ACT will deliver up to 10,000 additional training places for existing workers and job seekers.
- Expanding the Canberra Institute of Technology's scholarship program assisting around 1,000 students per annum with materials and fees in courses in areas of skills shortage (\$1.4 million over four years).
- Increasing the number of School Based Apprenticeships, with up to 100 new apprentices supported each year through established Group Training Arrangements. Students in this program can achieve a nationally recognised vocational qualification and are engaged in paid work, training and formal study as part of their Year 12 certificate (\$1.5 million over four years).
- Constructing a new purpose built facility for electrotechnology training at the Fyshwick Trade Skills Centre (\$9.9 million over four years).
- Supporting ACT apprentices at risk of losing their job through a new service to help them stay in work and continue their studies.
- Childcare and community facilities will be upgraded and refurbished (\$815,000 in 2009-10). A third child and family centre will be built in West Belconnen through a joint Australian Government and ACT initiative.

## Capital works

The 2009-10 Budget Infrastructure Program provides for new capital works projects totalling \$497.4 million over four years. Including the Australian Government funded projects from the *Nation Building and Jobs Plans* and the new roads programs (\$306.3 million), the Information and Communication Technology projects (\$107.3 million) and Plant and Equipment (\$17.4 million), the value of new projects is \$928.4 million.

The value of works in progress flowing from the previous years is \$734.3 million. Cash allocation over the period 2009-10 to 2012-13 for works in progress and new works therefore totals \$1.663 billion. The Budget is committing \$762 million of cash expenditure in 2009-10.

A million dollars of capital expenditure supports an average of three jobs in the construction and associated industries. The total capital allocation would support more than 2,000 jobs in the economy.

Significant infrastructure investments have been made in the 2009-10 Budget which include:

- Enhanced Community Health Centre in Belconnen
- Gungahlin Drive Duplication
- Canberra CBD Upgrade Program
- Emergency Services Agency – Specialist Outdoor Training Centre and Helicopter Base
- Gungahlin Enclosed Oval (Sports Complex)
- Kingston – Inner South Library
- Casey – Clarrie Hermes Drive Extension to the Barton Highway
- Forde – Mulligans Flat Road Extension and Water Quality Control Pond
- Canberra International Arboretum and Gardens – Forest Plantings
- Harrison High School
- Canberra College (Woden Campus) Performing Arts Theatre
- Shopping Centre Upgrade Program – Red Hill and Lyons
- Bruce – Braybrooke Street Extension
- Cycling, Signage and Footpath Upgrades at various locations throughout the Territory.