



Long Term Forecasts

Australia, 2011 – 2026

37th Edition

"We'll get through the current softness...to post solid growth over the next five years.
But there will be big winners...and big losers!"



EXTRACT TO INDICATE THE GENERAL NATURE OF THE REPORT

ECONOMICS

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INTRODUCTION

This is the thirty-seventh edition of our *Long Term Forecasts* series of reports that are intended to aid the medium and long term budgeting and planning processes in both the private and public sectors. It reports on the results of a detailed study undertaken by BIS Shrapnel on the medium to long term prospects for the Australian economy.

The reports are completely revised and rewritten each year, not only to incorporate new data but to take account of recent changes in government policies and newly emerging economic events. The implications of these developments for the medium to long term economic growth prospects of Australia are the subject of this report.

We stress that the forecasts contained in this report are not to be interpreted as being unequivocally accurate fifteen years out. To pretend that they were, given the magnitude of the swings associated with cycles in the economy and the myriad of events both known and yet to occur that can affect economic results, would be foolhardy.

Yet, longer term planning and investment decisions require information about the longer term prospects for the economy, for specific industry sectors and for the economic environment. All corporate planning and forward planning exercises have implicit within them the need to take a view of the future. This report presents one such view, representing our most likely scenario.

The numerical forecasts of this report are presented to give the reader a better feel of the order of magnitude of the long term influences than can be gained from purely qualitative assessments. But we also place a strong emphasis on explanation of the reasons for the forecasts. We ask the questions:

- What is happening to the economy now?
- Why is it happening now?
- What are the prospects?
- What developments are likely to influence these prospects?

We feel that the answers to these questions provided in the text are a crucial adjunct to the numerical forecasts. The report concentrates on two levels:

- The short to medium term prospects for the Australian economy as summarised by annual forecasts for the next five years. The annual forecasts are intended to capture the timing of the next business cycle.
- The longer term underlying trends in the economy as indicated by two five year average forecasts to the year 2026.

The operation of the economic cycle plays a crucial role in determining activity levels in the short to medium term. Accordingly, we place current activity levels into an historical perspective and attempt to identify the cyclical and underlying structural components. Our forecasts attempt to capture the effects of the economic cycle over the next five years.

These medium term forecasts represent a link between our short term forecasts — the next 12 to 18 months — and longer term projections beyond 2016, which are indicative only of major trends.

A guide to the report

Long Term Forecasts comprises, in addition to this introduction, an Overview and eight chapters. The main forecasts are set out in the Key Economic Indicators table at the beginning of the Overview, with calendar year forecasts appearing at the end of this section.

The *Overview* is designed to give a summary of the forecasts, the major factors influencing the economic environment and the general reasoning behind the forecasts.

Each Chapter begins with a brief *Summary of Forecasts*.

The framework that forms the basis of this report is that of the Australian National Accounts. The National Accounts have been designed to provide a systematic summary of national economic activity, including domestic production, national income, capital formation and consumption expenditure. These provide a convenient and comprehensive framework for forecasting the Australian economy.

In this report, some data for 2010/11 has been estimated (denoted by 'e' in the tables) using the latest available National Accounts for the March quarter, 2011.

Chapter 1 provides forecasts of Australia's *Population* growth and discusses the prospects for the *Labour Market*.

Chapter 2 discusses *Household Income and Consumer Demand* and provides detailed forecasts of the eighteen major components of *Private Consumption Expenditure*.

Chapter 3 provides detailed forecasts of *Investment* (Capital Expenditure), the prospects for which are crucial for the longer term health of the Australian economy.

Chapter 4, *The World Economy and Trade*, sets the scene for our forecasts of the world economy, Australia's major trading partner economies and the current account balance.

Chapter 5 presents forecasts of *Government* spending.

Chapter 6 provides forecasts of *Consumer Price Index Inflation*, *Wages* growth and *Interest Rates*.

Chapter 7 presents forecast of the gross product of eighteen major *Industry Sectors*. These forecasts are consistent with our earlier expenditure-based forecasts of Gross Domestic Product.

Chapter 8 discusses the prospects for the *Manufacturing Sector*, with forecasts of gross value added growth in the nine major sub-sectors.

Sources of data

The data used to measure and forecast the economic variables in this report are drawn from publications of the Australian Bureau of Statistics, the Reserve Bank of Australia, the Australian Bureau of Agriculture and Resource Economics, the OECD, the IMF, the Department of Immigration, the Productivity Commission, Consensus Forecasts, the Treasury, and State and Federal Budget papers.

Long Term Forecasts also draws on a number of BIS Shrapnel reports including; *Economic Outlook*, *State Industry Prospects*, *Building in Australia*, *Engineering Construction in Australia*, *Property Prospects* (Residential, Commercial Office, Retail, Industrial), *Paper and Board Packaging in Australia*, *The Australian Foodservice Market*, *The Household Appliances Market in Australia*, *Mining in Australia* and *Supply Chain Distribution in Australia*.



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